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ABSTRACT

This report discusses the growing shortage of affordable housing in the rural United States. The data, released in February 1989, come from the U.S. Bureau of the Census and the Department of Housing and Urban Development. The data show that most of the 3.9 million poor households in nonmetropolitan areas pay high percentages of their limited incomes for housing. Large numbers of poor rural homeowners bear high housing costs, but bigger affordability problems are faced by poor rural renters. Moderate-income households also have significant housing-cost burdens in nonmetropolitan areas though such households spend proportionally less on housing costs than the poor. In fact, the data show that, as income rises, the proportion spent on housing declines. Since the 1970s, there has been a dramatic shift from a surplus to a shortage of rural low-income housing, burdening poor black and white families alike. While housing costs are a bigger burden in urban areas, incomes are lower in rural regions. Poor rural families also occupy a disproportionate share of substandard housing and for most such poor rural households, government subsidized housing is inaccessible. Most national analyses forecast that affordable housing will be less accessible to low-income families in the future. Nonmetro poor households are more likely to be white, elderly, and to include a married couple with at least one worker. Rural Southern households are more likely to be poor than those elsewhere in the nation. The U.S. housing problem is a crisis that requires action from both government and the private sector. (TES)

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THE OTHER HOUSING CRISIS
SHELTERING THE POOR IN RURAL AMERICA

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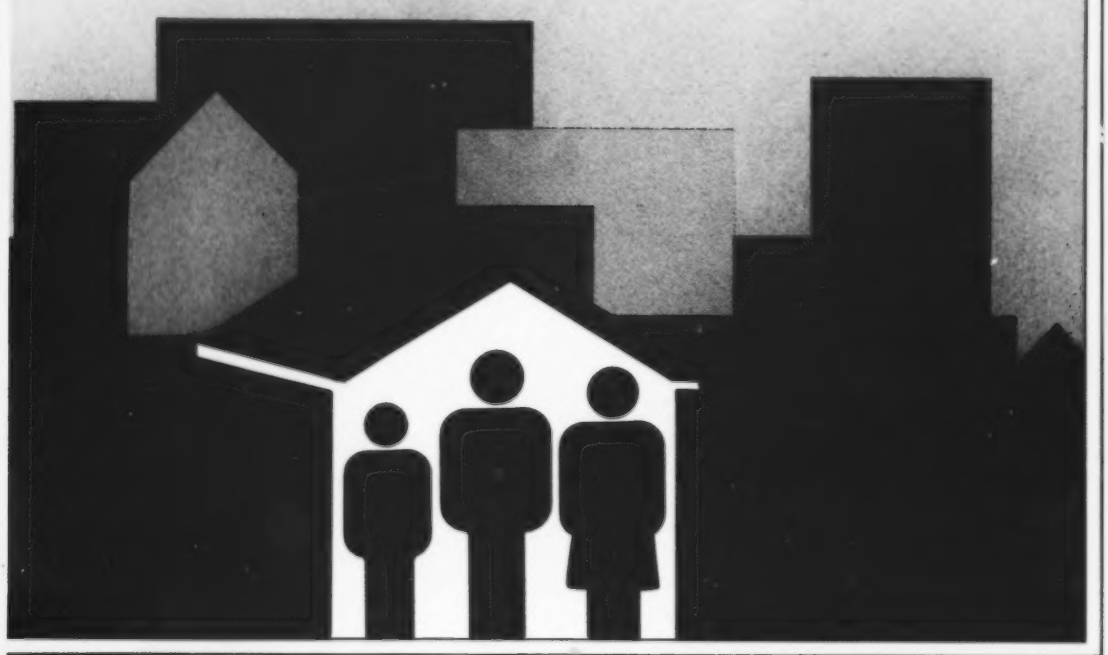

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Center on Budget and Policy Priorities ■ Housing Assistance Council

THE OTHER HOUSING CRISIS

Sheltering the Poor in Rural America

Edward B. Lazere
Paul A. Leonard
Linda L. Kravitz

CENTER ON BUDGET AND POLICY PRIORITIES
Washington, D.C.

HOUSING ASSISTANCE COUNCIL
Washington, D.C.

The **Center on Budget and Policy Priorities**, located in Washington, D.C., is a nonpartisan, nonprofit research organization that studies government spending and the programs and public policy issues that have an impact on low income Americans. The Center is funded by grants from foundations.

The **Housing Assistance Council**, a Washington, D.C.-based nonprofit organization founded in 1971, promotes development of low income rural housing through seed-money loans, technical assistance, research, information, and training provided to community-based groups. HAC's funding comes from both public and private sources.

About the Authors

Edward B. Lazere is a research assistant at the Center on Budget and Policy Priorities. His research focus is on affordable housing and related issues. He is a co-author of two Center reports: *A Place to Call Home: The Crisis in Housing for the Poor*, a report on national housing conditions released by the Center in April 1989, and *The Crisis in Housing for the Poor: A Special Report on Hispanics and Blacks*, released in July 1989.

Paul A. Leonard is a policy analyst at the Center on Budget and Policy Priorities. He directs the Center's housing policy project. He has co-authored the two reports noted above as well as a series of reports on housing conditions for the poor in major metropolitan areas.

Linda L. Kravitz is a free-lance editor and consultant on rural development issues. She is the former director of research and information at the Housing Assistance Council, and her publications include reports on farm cooperatives, migrant farmworkers, and rural poverty and housing issues.

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Center on Budget and Policy Priorities
236 Massachusetts Avenue, N.E., Suite 305
Washington, D.C. 20002
(202) 544-0591
Robert Greenstein, Executive Director

Housing Assistance Council
1025 Vermont Avenue, N.W., Suite 606
Washington, D.C. 20005
(202) 842-8600
Moises Loza, Executive Director

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Preface

The most visible sign of the nation's low income housing crisis is the large and growing number of homeless individuals and families. To many Americans, homelessness is predominantly an urban problem, calling up visions of homeless men and women sleeping on grates or in subways and homeless families living in big city welfare hotels. As a result, the shortage of decent, affordable housing is also regarded as an urban problem.

Yet the low income housing crisis is by no means limited to urban centers. It is widespread in rural America as well. Large proportions of poor rural households pay extremely high percentages of their limited incomes for housing. In fact, three of every four poor households living in the nonmetropolitan United States pay more for housing than the maximum amount regarded as affordable for these households under federal standards.

Many of these households are the "near homeless." They are families for whom a change or disruption in income can result in being unable to pay the rent, the mortgage, or the utility bills. They are families who often pay their housing bills each month only by squeezing funds for other necessities, such as food, clothing, or medical care.

Moreover, while housing costs tend to be lower in rural than in urban areas, housing quality is lower as well. The rural poor are more likely to live in substandard housing than their urban counterparts. Despite decades of progress, a significant portion of poor households in nonmetropolitan areas still occupy housing that is dilapidated or lacks basic necessities, such as indoor plumbing. Many continue to have inadequate water supplies or sewage disposal systems.

This report on the housing conditions of the rural poor is issued jointly by the Center on Budget and Policy Priorities and the Housing Assistance Council. It is based on data released in February 1989 by the Bureau of the Census and the Department of Housing and Urban Development. This publication, the American Housing Survey for the United States in 1985, is the first comprehensive set of data on U.S. housing conditions released in four years -- and the first set of such data ever published that includes specific information on the housing conditions of those below the poverty line. These data demonstrate convincingly that the growing shortage of affordable housing affects rural and urban areas alike -- and is truly a national problem.

In addition, this report incorporates earlier analyses of federal housing programs conducted by Cushing N. Dolbeare for the Low Income Housing Information Service.

This report is part of two larger undertakings of the Center on Budget and Policy Priorities. The Center is producing a series of reports on housing conditions faced by the poor, as documented by data collected in the American Housing Survey. This series includes an overview report that was published jointly in April 1989 with the Low Income Housing Information Service (*A Place to Call Home: The Crisis in Housing for the Poor*), and a subsequent report on the housing conditions facing Hispanic and black households (*The Crisis in Housing for the Poor: A Special Report on Hispanics and* Blacks, July 1989). This series also includes a number of reports on housing conditions in selected metropolitan areas.

This report is also one in a series of Center publications on rural poverty and its consequences. Earlier reports in this series include a national overview (*Poverty in Rural America: A National Overview*, April 1989) and a report on the rural working poor (*Laboring for Less: Working but Poor in Rural America*, October 1989).

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The authors claim sole responsibility for the analysis herein and any errors that may remain.

Executive Summary

In February 1989, the U.S. Bureau of the Census and the U.S. Department of Housing and Urban Development (HUD) issued the first comprehensive set of data in more than four years on housing conditions nationwide. These data, collected as part of the American Housing Survey (AHS) for 1985, show that most of the 3.9 million poor households in nonmetropolitan areas of the United States pay extremely large portions of their limited incomes for housing costs.

Under standards established by HUD, housing is considered affordable for a low income household if it consumes no more than 30 percent of the household's income. Yet the AHS data reveal that three of every four poor households in nonmetro areas paid more than 30 percent of income for housing in 1985. The data show that housing cost burdens are high among poor nonmetro homeowners and renters alike.

Poor Homeowners

More than half of the poor households in nonmetro areas own their homes. Large numbers of these households bear high housing cost burdens.

- Some 65 percent -- or nearly two-thirds -- of all poor homeowners in the nonmetro U.S. paid at least 30 percent of income for housing in 1985, thereby exceeding the amount considered affordable under the federal standards. Some 1.2 million poor nonmetro homeowners bore housing costs of this magnitude. Housing costs for homeowners include mortgage payments, utilities, property taxes, insurance, and home maintenance costs.

- More than one of every three poor homeowner households in nonmetro areas paid at least 50 percent of income for housing.

- Some 22 percent of poor nonmetro homeowners households -- or more than one in five -- paid at least 70 percent of income for housing.

- Substantial proportions of poor nonmetro homeowners faced high housing cost burdens even though a large majority of these households -- 70 percent -- had paid off their mortgage.

- The typical -- or median -- poor homeowner in a nonmetro area had an income of less than $5,000 in 1985 (equivalent to about $5,500 in 1988) and spent 39 percent of its income on housing.

Poor Renters

Poor renters in nonmetro areas faced even more severe housing affordability problems.

- A stunning 79 percent of poor nonmetro renters -- or 1.1 million households -- paid at least 30 percent of their incomes for housing in 1985.

- More than half paid at least 50 percent of their incomes for housing, while 32 percent paid at least 70 percent of income for housing.

- The typical poor nonmetro renter, like the typical poor nonmetro homeowner, had an annual income of less than $5,000. The typical poor nonmetro renter, however, spent 51 percent of income for housing in 1985.

These data do *not* cover most of those nonmetro households who are homeless because the homeless are generally not picked up in Census Bureau surveys. As a result, this report provides a conservative estimate of the housing problems facing poor nonmetro households.

Housing Cost Burdens Decline as Income Rises

Although poor households bear the steepest housing cost burdens, many moderate income households -- defined as those with income between $10,000 and $30,000 -- have significant housing cost burdens as well. In 1985, one of six moderate income households in nonmetro areas spent at least 30 percent of income for housing.

Nevertheless, poor households were far more likely than moderate income households to bear extremely high housing costs. While 42 percent of poor nonmetro households spent at least half of their income for housing, just three percent of moderate income nonmetro households paid that much.

If significant proportions of both poor and moderate income households had housing costs outside the affordable range, few high income households did. For example, while 72 percent of poor households and 17 percent of moderate income households spent at least 30 percent of their income on housing, just two percent of nonmetro households with incomes over $60,000 spent this much.

The data show quite clearly that as income rises, the proportion of income spent on housing declines. While the typical nonmetro household with income of less than $5,000 paid 55 percent of its income for housing in 1985, the typical household with an income of $20,000 to $30,000 spent 15 percent of its income for housing, and the typical household in the $40,000 to $60,000 range spent 11 percent of income for housing. The typical household with an income greater than $60,000 spent seven percent of income on such costs.

Poor White and Black Households Both Affected By High Housing Costs

The problems of high housing cost burdens affect both poor black and poor white households in nonmetro areas. In fact, poor white households are more likely to bear high housing cost burdens than are poor black household. In 1985, some 61 percent of poor nonmetro blacks spent at least 30 percent of income on housing, while 75 percent of poor whites did. However, since blacks were nearly three times as likely as whites to be poor, a much larger proportion of the nonmetro black community faced the high housing costs associated with poverty. In addition, nonmetro blacks were much more likely to live in substandard housing than nonmetro whites.

Trends in Low Income Rental Housing: Supply and Demand

Nearly half of all poor households in nonmetro areas are renters. Since the 1970s, there has been a dramatic shift from a surplus to a shortage of low income rental housing in the nonmetro United States.

A useful way to examine affordability problems faced by low income renters is to compare the number of low income renter households to the number of low rent units in the housing stock. Low income households are defined here as those with income of less than $10,000. Low rent units are those that rent for no more than 30 percent of the income of a household earning $10,000 a year -- that is, for no more than $250 a month. (Income and rental cost figures are adjusted for inflation and measured in 1985 dollars.)

- In 1970, there were 500,000 more low rent housing units in nonmetro areas than there were low income renter households.

- By contrast, in 1985 there were nearly 500,000 *fewer* low rent units in nonmetro areas than there were low income renter households. While some 2.5 million nonmetro renter households had incomes of $10,000 or less, only two million units rented for $250 a month or less.

- Moreover, since low rent units are not restricted to low income tenants, the low income housing shortage in nonmetro areas is substantially more severe than these numbers indicate. More than one-third of the occupied low rent units in nonmetro areas were occupied by renters who were not low income households.

The shortage of affordable rental housing was most severe for those with the lowest incomes: renter households with incomes below $5,000 a year.

- Some 1.2 million nonmetro renter households had incomes this low in 1985. For housing to have consumed no more than 30 percent of the incomes of these households, it must have rented for no more than $125 per month.

- Yet only 500,000 rental units in nonmetro areas had monthly costs this low.

The affordable housing problems faced by very low income renters in nonmetro areas -- and by very low income homeowners as well -- have worsened appreciably since the 1970s. Between 1978 and 1985, the housing costs of the typical nonmetro *homeowner* with an income of $5,000 or less increased by 26

percent, after adjustment for inflation. The housing costs of the typical nonmetro *renter* with income this low rose 15 percent, after adjusting for inflation.

Housing Cost Burdens in Nonmetro and Metro Areas

While the housing cost burdens of poor households are high in both nonmetro and metro areas, they tend to be more severe in metro areas.

- Some 72 percent of poor nonmetro households -- including both homeowners and renters -- spent at least 30 percent of their income for housing in 1985, thereby exceeding the federal affordability standard.

- But 84 percent of poor households in metro areas bore housing costs this high.

These figures reflect two basic differences between low income housing conditions in metro and nonmetro areas. First, a much larger proportion of the nonmetro poor own their homes and have paid off their mortgages. These households typically have lower housing costs than do renters and homeowners with outstanding mortgages. In both metro and nonmetro areas, the large majority of poor homeowners who have paid off their mortgages are elderly households.

Second, housing costs -- including both the costs of homeownership and of renting -- are lower in nonmetro than in metro areas.

Yet while homeownership and rental costs are typically lower in nonmetro areas, so too are incomes. In 1985, one of every five nonmetro households had income below the poverty line, compared with fewer than one in seven metro households. Moreover, *nearly half* of all nonmetro households had income below twice the poverty line, compared with just one-third of metro households.

As a result, nonmetro households are more likely than metro households to bear the high housing cost burdens associated with low income status. Thus, when *all* households are considered -- including both poor and non-poor households -- the typical housing cost burdens of nonmetro households are about the same as the typical burdens borne by their metro counterparts.

- Nonmetro homeowners with outstanding mortgages -- including both poor and non-poor households -- typically spent 22 percent of income

for housing in 1985, while metro homeowners with outstanding mortgages typically spent 21 percent.

- In both nonmetro and metro areas, homeowners who had paid off their mortgages typically spent 14 percent of income for housing.

- The typical nonmetro renter bore housing costs that accounted for 26 percent of income. The typical metro renter spent 28 percent of income for housing.

Substandard Housing

Poor households in nonmetro areas are much more likely than non-poor households to live in housing with moderate or severe physical problems. Some 900,000 poor nonmetro households lived in substandard housing in 1985.

- Nearly one of every four poor nonmetro households occupied housing units that HUD classified as having physical deficiencies.

- By contrast, one in 14 non-poor households in nonmetro areas lived in housing units with these deficiencies.

- Similarly, while poor households constituted 20 percent of all nonmetro households, they occupied 44 percent of the nonmetro units with signs of rats, 55 percent of the units without complete bathrooms, 54 percent of the units with holes in the floor, 43 percent of the units with cracks in the walls, and 46 percent of the units with weak foundations.

Even when compared with poor households in metro areas, the nonmetro poor occupy a disproportionate share of the nation's substandard housing units.

- In 1985, the nonmetro poor made up 29 percent of all poor households in the United States, but 32 percent of the poor households living in units with moderate physical deficiencies and 36 percent of the poor households occupying units with severe physical deficiencies.

- In addition, nonmetro poor households made up 38 percent of all poor households living in units with water leaks from the outside, 48 percent of the poor households living in units with inadequate heating equipment, 71 percent of the poor households in units with

an inadequate water supply, and 75 percent of those in units with inadequate sewage disposal facilities.

Due to technical problems in the American Housing Survey questionnaire, these data understate the extent of housing quality problems among poor nonmetro households. The Census Bureau did not release any data on units with inadequate plumbing facilities in 1985, because problems in the questionnaire resulted in "serious deficiencies" in the identification of units with inadequate plumbing facilities. Since lack of adequate plumbing historically has been far more prevalent in nonmetro areas, this lack of data results in a much greater undercount of the incidence of substandard housing in nonmetro areas than in metro areas. Consequently, the data reported in this study understate the extent to which nonmetro areas have a higher incidence of substandard housing than metro areas do.

Gaps In Government Assistance

For most poor nonmetro households overburdened by high housing costs, government assistance through subsidized housing programs is not available. Fewer than one in three poor renter households in nonmetro areas -- 29 percent -- received any kind of federal, state, or local rent subsidy or lived in public housing in 1987.

In nonmetro areas, a majority of government housing assistance for the poor is provided through the Farmers Home Administration (FmHA) and is targeted on homeowners rather than renters. The supply of such assistance falls well short of demand. In 1988, some 145,000 families applied for rural homeownership loans or grants, but only 36,000 received assistance.

Housing assistance is unlike other "safety net" programs in that the poor are not legally entitled to housing assistance, even if they meet all eligibility criteria. The number of households assisted each year is determined by the funding level provided by Congress and the President. Applicants for housing assistance are often placed on waiting lists – and frequently must wait several years before receiving any assistance.

Moreover, despite a growing need for low income housing assistance, the 1980s have witnessed a declining federal commitment in this area. While the number of low income households in nonmetro areas has increased markedly in the past decade, a similar increase in the number of low cost housing units in the private market has not occurred. As a result, the households assisted through

government housing programs must rise substantially each year just to keep the shortage of affordable housing from growing larger.

- From fiscal year 1977 through fiscal year 1980, FmHA made commitments to provide housing assistance to an average of 142,000 additional households each year. From fiscal year 1981 through fiscal year 1988, however, new commitments dropped to an average of 75,000 per year, a decline of nearly 50 percent.

- Had the number of additional households assisted by FmHA programs in the 1980s continued at the average rate of the late 1970s, more than half a million additional households in rural areas would now be receiving assistance.

- The cuts in HUD programs have been even more severe. From fiscal year 1977 through fiscal year 1980, HUD made commitments to provide rental assistance to an average of 316,000 additional households per year. From fiscal year 1981 through fiscal year 1988, however, new housing commitments fell by nearly three-fourths, to an average of 82,000 per year. This decline affected nonmetro as well as metro areas, since approximately 21 percent of HUD-subsidized housing is provided in nonmetro areas.

- Had the number of units added to the subsidized housing stock in the 1980s continued at the late 1970s rate, 1.9 million more low income households would be receiving HUD housing assistance today.

Ominous Trends in Subsidized Housing

Most national analyses forecast that the gap between low income households and affordable units for these households will grow substantially larger in the years ahead. One reason is that many commitments under federal low income housing programs will expire in the years ahead.

Under the Section 515 program of the Farmers Home Administration, the federal government provides mortgage subsidies to private developers who agree to lease their units to low and moderate income tenants for up to 50 years.

Until 1980, developers entering this program had the option to "prepay" their mortgages at any time, freeing themselves of any further obligation to rent to low income households. Owners of projects financed under this program after 1980 are prohibited from "prepayment" for the first 20 years of the mortgage.

If they prepay their mortgages, owners are free to charge whatever rents the market will bear or to convert their developments to other uses. Low income tenants could be required either to pay substantially higher rents or to find other housing.

About half of the current FmHA rental inventory of 400,000 units was financed before 1980 and is eligible for prepayment.

In contrast to the decline in low income housing assistance, there has been a substantial increase in federal housing assistance that primarily benefits middle and upper income families. Each year the federal government provides billions of dollars in benefits to homeowners through deductions from taxable income for mortgage interest payments and property taxes. Subsidies that result from tax deductions, credits, or other tax breaks are called "tax expenditures."

- In fiscal year 1988, direct spending on federal low income housing assistance programs equalled $13.9 billion. In that same year, federal tax expenditures for housing totalled $53.9 billion.

- Total federal tax expenditures for housing in just the past two fiscal years -- $107.4 billion -- approximately equals the amount spent directly on all low income subsidized housing programs throughout the 1980s, which was $107.7 billion.

As a result, federal housing subsidies are strongly tilted toward those who are already most affluent. The number of households with incomes below $10,000 a year is about the same as the number with incomes above $50,000 a year. However, federal subsidies going to the higher income group -- from both subsidized housing programs and tax benefits -- are more than triple the subsidies going to the lower income group.

Characteristics of Poor Households

Poor households in nonmetro areas differ in several respects from poor households in metro areas. The nonmetro poor are more likely to be white and to be elderly than are poor households in metro areas. Nonmetro poor households also are more likely to include a married couple and at least one worker.

Of the 3.9 million poor households in nonmetro areas in 1985, some 2.9 million -- or 76 percent -- were white. In metro areas, some 55 percent of poor households were white.

While whites made up a majority of nonmetro poor households, the incidence of poverty is much greater among nonmetro blacks than among nonmetro whites. Nearly half of all nonmetro black households -- 47 percent -- were poor in 1985, compared with 17 percent of whites.

The typical head of a poor nonmetro household was aged 55, while the typical poor household head in a metro area was 46. Moreover, 66 percent of all poor nonmetro households of two or more persons consisted of a married couple or a male-headed family. In contrast, a majority of poor households of two or more persons in metro areas -- 52 percent -- were female-headed families.

Finally, two of every three poor nonmetro households in 1985 contained one or more workers. A little more than half of the poor households in metro areas had at least one worker.

Housing Problems of Nonmetro Households Greatest in the South

The Census Bureau divides the United States into four regions: Northeast, Midwest, South, and West. Nonmetro households in the South are more likely to be poor and to face serious housing problems than those in other regions.

In 1985, three of every four nonmetro households lived in either the South (where 42 percent lived) or the Midwest (where 33 percent lived). Nonmetro households in the South are more likely to be poor than are nonmetro households in other regions. As a result, more than half of all nonmetro poor households nationwide -- some 51 percent -- lived in the South.

Nonmetro households in the South are much more likely than nonmetro households in other regions to live in substandard housing. In 1985, the incidence of substandard housing was *more than three times greater* in the nonmetro South than in the nonmetro areas of any other region. As a result, more than three-fourths of all nonmetro households in the nation that lived in substandard conditions resided in the South.

Black Households in Nonmetro Areas Face Severe Housing Problems

The incidence of poverty is actually greater among black households in nonmetro areas than among black households in the nation's central cities. Because their poverty rate is so high, large numbers of nonmetro black households

are affected by the housing problems associated with poverty, such as high housing cost burdens and substandard housing.

- In 1985, some 36 percent of all nonmetro black households -- including both the poor and the non-poor -- spent at least 30 percent of their income for housing.

- In contrast, some 25 percent of all nonmetro white households had housing costs of this magnitude.

Black households in nonmetro areas are also more likely than whites to live in substandard housing.

- In 1985, two of every five -- 41 percent -- nonmetro black households, including both poor and non-poor households, lived in substandard housing.

- In contrast, just seven percent of nonmetro white households lived in such conditions.

The housing problems faced by blacks in nonmetro areas are heavily concentrated in the South, because most nonmetro blacks live in the South. In 1985, some 91 percent of all nonmetro black households in the U.S. resided in the South.

Housing Problems of the Elderly in Nonmetro Areas

Elderly households in nonmetro areas, including poor elderly households, are more likely to be homeowners -- and to have paid off their mortgages -- than are non-elderly households. In 1985, some 70 percent of nonmetro elderly households were homeowners who had paid off all mortgage liabilities. By comparison, only 30 percent of non-elderly households in nonmetro areas owned their homes free and clear of a mortgage.

Nevertheless, a substantial proportion of nonmetro elderly households are poor and face the housing problems associated with poverty. More than one of every four nonmetro elderly households was poor in 1985, and three of five had incomes below twice the poverty line. In contrast, one of six non-elderly households was poor in nonmetro areas, and two of five had incomes below twice the poverty line.

Thus, despite a high rate of homeownership, many elderly households bear high housing cost burdens. Some 69 percent of poor elderly households in nonmetro areas spent at least 30 percent of their income for housing in 1985, thereby exceeding the federal affordability standard.

Since a majority of poor elderly households in nonmetro areas are homeowners who own their homes free of mortgage liabilities, other housing costs incurred by these households -- costs for utilities, maintenance, property taxes, and insurance -- appear frequently to constitute a substantial burden.

* * * * *

For most low income households in nonmetro areas, housing has become an increasingly unaffordable commodity. With nearly three of every four poor nonmetro households paying more than 30 percent of income for housing -- and with substantial numbers paying more than 70 percent of income -- little remains for other necessities.

These high housing cost burdens have serious implications. The severe low income housing shortage is likely to have contributed to the problem of homelessness. In addition, these housing cost burdens are likely to have intensified other problems such as hunger. The likelihood that a poor nonmetro household will be without adequate food for part of a month is considerably greater when housing costs consume so much of its income that too little money is left to buy food to last throughout the month.

There is a crisis in housing for low income Americans in nonmetropolitan areas. Affordability problems worsened sharply for low income nonmetro households between the late 1970s and the mid-1980s. This housing crisis for the poor is unlikely to improve in the years ahead unless major changes are made in government policies and in the actions of the private sector.

I. The Housing Cost Burdens on Poor Households

Under standards established by the U.S. Department of Housing and Urban Development (HUD), housing is considered affordable for a low income household if it consumes no more than 30 percent of the household's adjusted income.[1] By this standard, nearly three of every four poor households living in nonmetropolitan areas are unable to find affordable housing.[2]

Poor Homeowners

In 1985, some 55 percent of nonmetro households living below the poverty line were homeowners. (The poverty line is adjusted for family size; in 1985, the poverty line was $8,573 for a family of three.) Most poor homeowners in nonmetro areas bore high housing costs.

[1]Until 1981, housing was considered affordable by HUD if it consumed no more than 25 percent of adjusted household income. This standard was raised to 30 percent of adjusted income in conjunction with federal budget reductions enacted in 1981. Adjustments in household income include: a deduction of $480 a year for each dependent child under 18, each disabled or handicapped family member, and each full-time student over 18 living at home; a deduction of $400 a year for an elderly family; and a deduction for the amount by which the sum of the following household expenses exceeds three percent of total household income: medical care for elderly family members, care and equipment for handicapped family members which allow family members to work or go to school, and child care needed to allow family members to work or go to school. Cost burden figures for this report come from the Census Bureau's American Housing Survey, which includes cost estimates based on unadjusted income figures only.

[2]This report uses the definition of household used by the Census Bureau in the American Housing Survey, which consists of all people who occupy a housing unit. A household may consist of a single family, one person living alone, two or more families living together, or any other group of related or unrelated people who share living arrangements. The Census Bureau defines a housing unit as "a house, an apartment, a group of rooms, or a single room occupied or intended for occupancy as separate living quarters."

- Nearly two of every three (65 percent) poor homeowners in nonmetro areas -- or 1.2 million poor households -- spent at least 30 percent of their income for housing, thereby exceeding the amount considered affordable under the federal standard.[3] Housing costs include mortgage payments, utilities, property taxes, insurance, and maintenance costs.[4]

- More than one of every three nonmetro poor homeowners -- or 36 percent -- spent at least 50 percent of their income for housing.

- Approximately one of five nonmetro poor homeowners -- 22 percent -- spent at least 70 percent of income on housing expenses.[5] (See Figure 1.)

- The typical -- or median -- nonmetro poor homeowner household paid nearly two-fifths of its income (39 percent) for housing in 1985. In other words, half of all poor nonmetro owners had housing cost burdens in excess of 39 percent of their income, while the other half had housing burdens below this level.[6]

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[3]According to officials of the Department of Housing and Urban Development, the standard for housing affordability is 30 percent of income for renters and homeowners with no mortgage liabilities, and 40 percent for homeowners with an outstanding mortgage. The higher affordability standard for homeowners with an outstanding mortgage is justified because mortgage payments yield a buildup of home equity. The 40 percent of income standard for homeowners with an outstanding mortgage thus takes into account the fact that mortgage payments reflect both housing costs and a financial investment.

The published American Housing Survey data do not provide separate data on the housing cost burdens of poor owners according to their mortgage status. Since seven of 10 poor homeowners in nonmetro areas have no mortgage liabilities, this study uses the 30 percent of income standard for all poor homeowners.

[4]These 1985 data represent the most recent data on housing conditions in nonmetro areas. Data from another Census Bureau survey indicate that the poverty rate has declined in nonmetro areas, from 18.3 percent of all persons in 1985 to 16 percent in 1988. While these figures may suggest some improvement in the housing conditions in nonmetro area, there are no available data on housing costs or quality to provide a complete picture of these conditions beyond 1985.

[5]The American Housing Survey includes a number of homeowners with mortgage obligations who did not report the amount of their mortgage payments and a number of homeowners who reported zero or negative income. In its published data tables, the AHS does not calculate the monthly housing costs as a percentage of income for either of these types of households. To be consistent with the American Housing Survey, all calculations in this report of owners paying a given percentage of their incomes for housing costs exclude households that had zero or negative income or did not report the amount of their mortgage payments.

[6]The median household is the household that falls exactly in the middle of a distribution of all households. Thus, for example, half of all poor homeowners have income below that of the median poor homeowner, while half have income above it.

DEFINITIONS

The American Housing Survey provides extensive data on "metropolitan" and "nonmetropolitan" areas, using the official definitions of the U.S. Census Bureau. This study examines households according to these definitions. Several other terms are also used in this study to designate various types of rural and urban areas, when relevant data are available.

Metro, Nonmetro, and Central City - In this paper, "metropolitan" and "metro" refer to areas designated by the Bureau of the Census as metropolitan statistical areas (MSA). The Census Bureau defines a metropolitan statistical area as a geographic area containing a city of at least 50,000 inhabitants, or an "urbanized area of at least 50,000 with a total metropolitan population of at least 100,000 (75,000 in New England)." Except in New England, MSAs are defined in terms of entire counties. In addition to the county containing the main city, contiguous counties that are "socially and economically integrated with the central county" are considered part of the MSA.

"Nonmetropolitan" and "nonmetro" refer to all areas (counties) outside the designated metropolitan statistical areas.

"Central city," as defined by the Census Bureau, refers to the largest city or cities in a metropolitan area. The central city includes the area within the city boundaries, but none of the adjacent suburbs.

Rural and Urban - Urban areas include Census-designated "urbanized areas" and places of 2,500 or more inhabitants outside urbanized areas. An urbanized area is "an incorporated place and adjacent densely settled surrounding area that together have a minimum population of 50,000." In essence, an urban area is any city, town, village, or "Census-designated place" with a population of 2,500 or more.

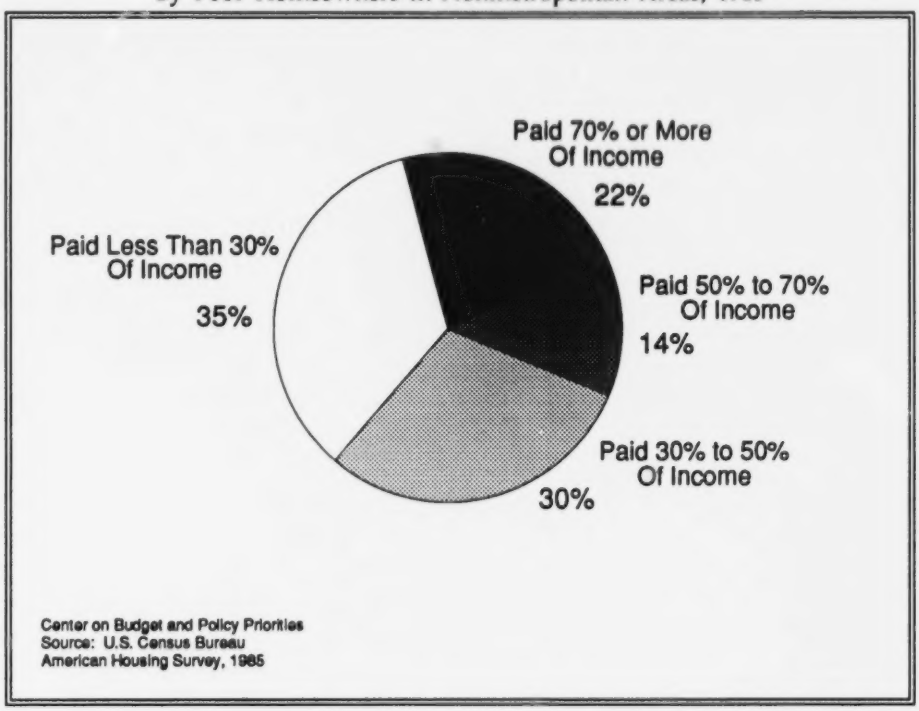
Rural areas are those outside urban areas.

Farmers Home Administration (FmHA) Service Area - The Farmers Home Administration of the U.S. Department of Agriculture administers rural housing programs. It defines rural areas as open country, communities with a population of 2,500 or less, communities with up to 10,000 residents that are rural in character and, in cases of serious housing needs, communities with up to 20,000 residents that are rural in character and outside metropolitan areas.

Sources: Bureau of the Census and the Department of Housing and Urban Development, *American Housing Survey for the United States in 1985*, pp. A2-A3; and Farmers Home Administration of the U.S. Department of Agriculture.

Figure 1

Percent of Income Spent on Housing
By Poor Homeowners in Nonmetropolitan Areas, 1985



High housing cost burdens were faced by a significant proportion of poor homeowners even though a large majority -- 70 percent -- had paid off their mortgages and owned their homes free and clear. The operating costs that poor owners incur even when free of mortgage payments -- costs for utilities, property taxes, insurance, and maintenance -- often constitute a substantial burden.[7]

[7]The percentages of income spent on housing do not reflect tax benefits provided to homeowners. Many of those homeowners who have not paid off their mortgages and who have earnings sufficient to incur income tax liabilities will receive some benefits from the mortgage interest deduction in calculating federal and state income tax payments. Benefits of a smaller magnitude may also be provided to some homeowners through federal and state deductions or credits for property tax payments. (See Chapter IV.)

Poor Renter Households

While renters are a minority (45 percent) of the poor population in nonmetro areas, their housing affordability problems are even more severe than those of poor homeowners. A substantial majority of poor renters in nonmetro areas devote extremely large portions of their limited incomes to housing costs, consisting of rent and utilities.

- A stunning *79 percent* -- or 1.1 million poor renter households in nonmetro areas -- paid at least 30 percent of their income for housing in 1985, thus exceeding the federal affordability standard.

- Half of all poor renters -- 51 percent -- paid at least half of their income for rent and utilities.

- About one in three poor renter households in nonmetro areas -- 32 percent -- paid at least 70 percent of their income for housing costs.[8] (See Figure 2.)

- The typical poor renter household paid 51 percent of its income for housing.

A Conservative Estimate of Housing Problems

These figures present a conservative picture of the housing problems of the nonmetro poor for two reasons. First, some housing studies have found that after meeting other basic needs, many poor households, particularly large households, cannot afford as much as 30 percent of income for housing. As a result, a number of housing analysts believe HUD's 30 percent of income standard to be too high. An alternative concept of affordability is presented in Appendix A.

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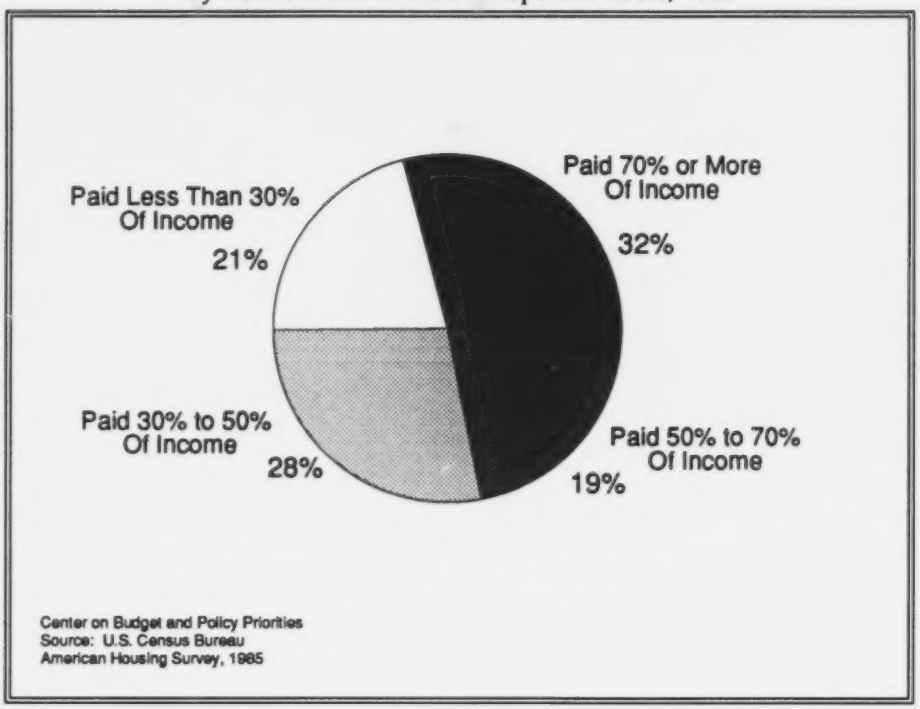
[8]The American Housing Survey includes a number of renters who reported that they paid no cash rent or who reported zero or negative income. In its published data tables, the AHS does not calculate the monthly housing costs as a percentage of income for either of these types of households. To be consistent with the AHS, all calculations in this report of the proportion of renters paying a given percentage of their incomes for rent exclude households that have zero or negative income or pay no cash rent.

Figure 2

Percent of Income Spent on Housing
By Poor Renters in Nonmetropolitan Areas, 1985



In addition, Census Bureau data do *not* include most households who are homeless. Current estimates of the homeless population range from 350,000 to three million.[9] In rural areas in particular, it is difficult to assess the size and nature of the homeless population. By definition, rural areas are sparsely populated and widely scattered, making an accurate count of the homeless nearly impossible. In addition, it is not clear how to define the rural homeless, since many of them receive temporary shelter from friends or relatives or live in extremely inadequate conditions, such as abandoned school buses or shacks without any basic amenities.

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[9]The Census Bureau will attempt to include homeless people in its decennial census for the first time in 1990.

Nevertheless, the homeless population in rural areas appears to be growing, especially in areas facing serious economic problems.[10]

High Housing Costs Leave Little For Other Basic Expenses

Extremely high housing cost burdens leave many nonmetro poor households with little income for other living expenses. The typical nonmetro poor household, including both renters and owners, had an income of less than $5,000 in 1985 and spent 44 percent of its income for housing.[11] A household with an income of $5,000 that spent 44 percent of its income for housing costs had only $233 per month -- or roughly $54 a week -- left for food, clothing, transportation, and other expenses.[12]

A poor household is more likely to be without basic necessities such as food or medical care for part of the month when housing costs consume so much of its income.

Poor White and Black Households Both Affected By High Housing Costs

The problems of high housing cost burdens affect both poor black and poor white households in nonmetro areas. In fact, poor white households -- which account for three of four poor households in nonmetro areas -- are more likely than poor blacks to face high housing cost burdens.

- In 1985, some 61 percent of poor black households in nonmetro areas spent at least 30 percent of their income for housing. By comparison,

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[10]Institute of Medicine, *Homelessness, Health, and Human Needs*, 1988, Appendix C.

[11]The Census Bureau data indicate that the median income of poor households in nonmetro areas is less than $5,000 but do not provide a precise figure. However, more than three-fifths of all poor nonmetro households had incomes of less than $5,000.

[12]Income includes cash income from all sources, including wages, public assistance, unemployment insurance, and Social Security benefits. It does not include non-cash benefits, such as food stamps or medical insurance.

The definition of household income used by the Census Bureau in the *American Housing Survey* publications -- and therefore used in this report -- is the income of the "family or primary individual." A family consists of a householder and all other persons living in the same household who are related by blood, marriage, or adoption. Individuals who live alone or with non-relatives only are defined as primary individuals. Family income includes the income of all family members living in a housing unit. For households consisting of only primary individuals, household income is that of the primary individual listed as the household head.

75 percent of poor whites in nonmetro areas bore housing costs of this magnitude.

- One in three poor nonmetro blacks -- 33 percent -- spent at least half of their income for housing. Some 45 percent of poor nonmetro white households had housing costs this high.[13]

Nevertheless, nonmetro blacks were more likely to face housing affordability problems than were nonmetro whites. This is primarily because in nonmetro areas, blacks are nearly three times as likely to be poor as whites. In 1985, some 47 percent of nonmetro blacks -- nearly one in every two -- lived below the poverty line. By contrast, 17 percent of nonmetro whites -- about one in six -- were poor. Because black households are much more likely than whites to be poor, they are also much more likely to face the high housing cost burdens associated with poverty.

Moreover, black households in nonmetro areas receive much poorer quality housing for their money. They are considerably more likely than white households to live in substandard housing. These matters will be explored further in Chapter VI.

Wealthy Pay Smaller Portion of Income for Housing

Although the affordable housing squeeze is most severe for poor households, many nonmetro households with moderate incomes -- defined here as households with income between $10,000 and $30,000 -- bear high housing costs as well. In 1985, one of six nonmetro households with moderate incomes -- 17 percent -- spent at least 30 percent of their income for housing.

Nevertheless, poor households were much more likely to bear high housing costs in relation to income than were moderate income households. Some 42

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[13]While poor nonmetro whites bear higher housing cost burdens than poor nonmetro blacks, these data warrant further consideration. National data from the Panel Study of Income Dynamics indicate that black households that are poor typically remain in poverty for longer periods of time than do poor white households. A household that becomes poor for a short period of time, perhaps as the result of a serious illness or a job layoff, may remain in its home, believing that its financial situation will improve soon. Such a household can incur housing costs that represent a very high percentage of its current, depressed income level. On the other hand, a family that is poor for a long period of time would probably never be able to occupy more expensive housing in the first place. Thus, the higher housing cost burdens faced by some poor whites may be related to the fact that they expect to be poor for a relatively short period of time. This hypothesis is supported by the much higher incidence of substandard housing among nonmetro blacks than among nonmetro whites.

percent of poor households spent at least half of their income for housing, compared with three percent of moderate income households.

While significant proportions of low and moderate income households spent sizable proportions of their income for housing, very few higher income households did. For example, while 72 percent of poor households and 17 percent of moderate income households spent at least 30 percent of their income on housing, just two percent of nonmetro households with incomes over $60,000 spent this much.

Furthermore, there is a clear pattern between income and housing cost burdens in nonmetro areas: as household income rises, the portion of income spent on housing declines. The typical nonmetro household -- including both homeowners and renters -- with an income of under $5,000 spent 55 percent of its income for housing in 1985. By contrast, the typical household with an income of $20,000 to $30,000 devoted 15 percent of income to housing. The typical nonmetro household with an income between $40,000 and $60,000 spent 11 percent of income for housing, and the typical household with income greater than $60,000 spent seven percent. (See Figure 3.)

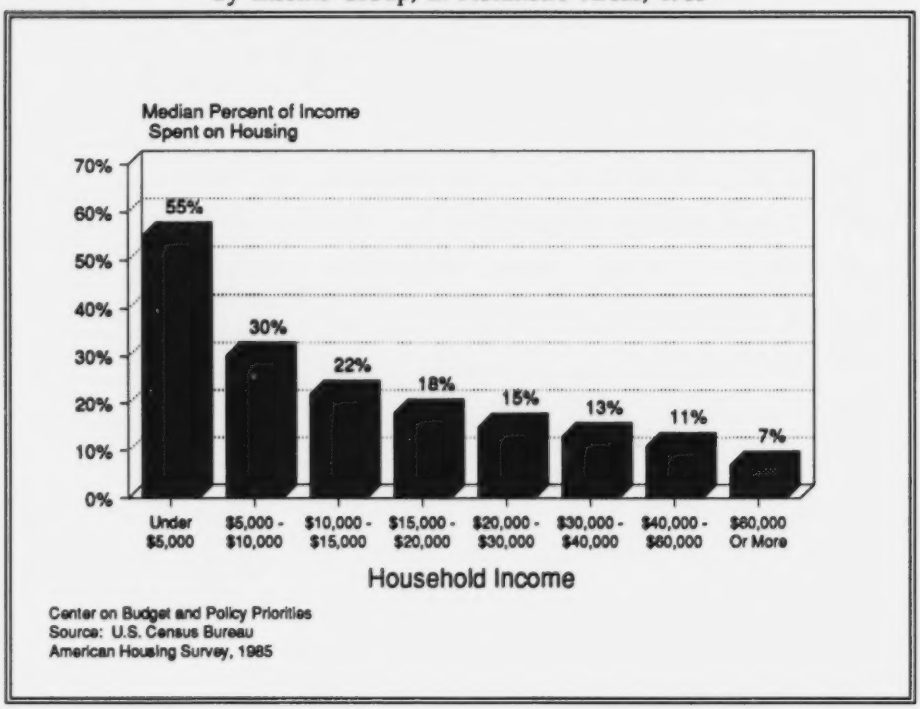
Trends in Low Income Rental Housing: Supply and Demand

Since nearly half of the poor households in nonmetro areas are renters, the supply of decent and affordable rental housing in nonmetropolitan areas is an important issue.

A useful way to examine the affordability problems faced by low income renter households is to compare the number of low income renter households with the number of low rent units in the housing stock. In this comparison, low income households are defined as households with incomes of less than $10,000. Low rent units are those for which rent and utility costs equal no more than 30 percent of a $10,000 income -- or no more than $250 a month.

Figure 3

Percent of Income Spent on Housing,
By Income Group, in Nonmetro Areas, 1985



In 1970, the number of low rent units in nonmetro areas significantly exceeded the number of low income renter households. By 1978, low cost units were only slightly more numerous than low income renters. And by 1985, the number of affordable rental units had fallen far behind the number of low income renters. (All figures for years prior to 1985 are adjusted for inflation to be comparable with 1985 dollars.)[14]

- In 1970, there were approximately 500,000 more low rent units in nonmetro areas than there were low income renter households.

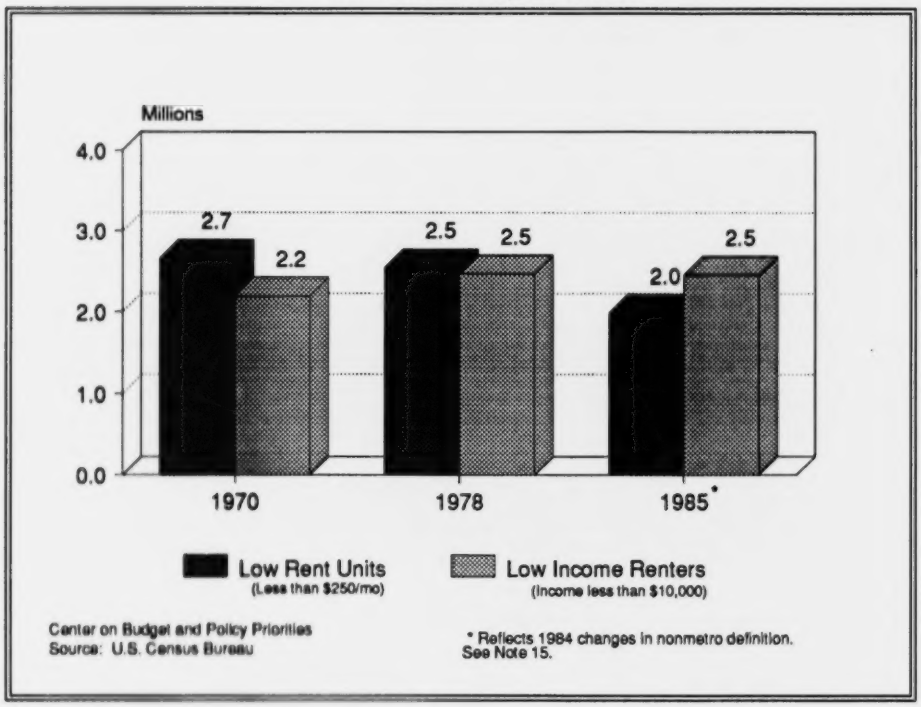
- Between 1970 and 1978, the number of low income renter households increased, while the number of low cost units registered a slight decline. As a result, by 1978, there were just 74,000 more low rent

[14]Data on the housing costs of *poor* households in nonmetro areas for years prior to 1985 are unavailable. However, housing cost data for low income households – those with incomes of $10,000 or less, as well as those with income of $5,000 or less – are available. They are used in this report to make comparisons over time of low income housing conditions in nonmetro areas.

units in nonmetro areas than there were low income renter households.

- The largest changes occurred between 1978 and 1985, as the low income housing market in nonmetro areas moved from a surplus to a deficit. By 1985, there were 500,000 *fewer* low rent units in nonmetro areas than low income renter households. There were 2.5 million low income renter households, but only two million low rent units. (See Figures 4 and 5.)[15]

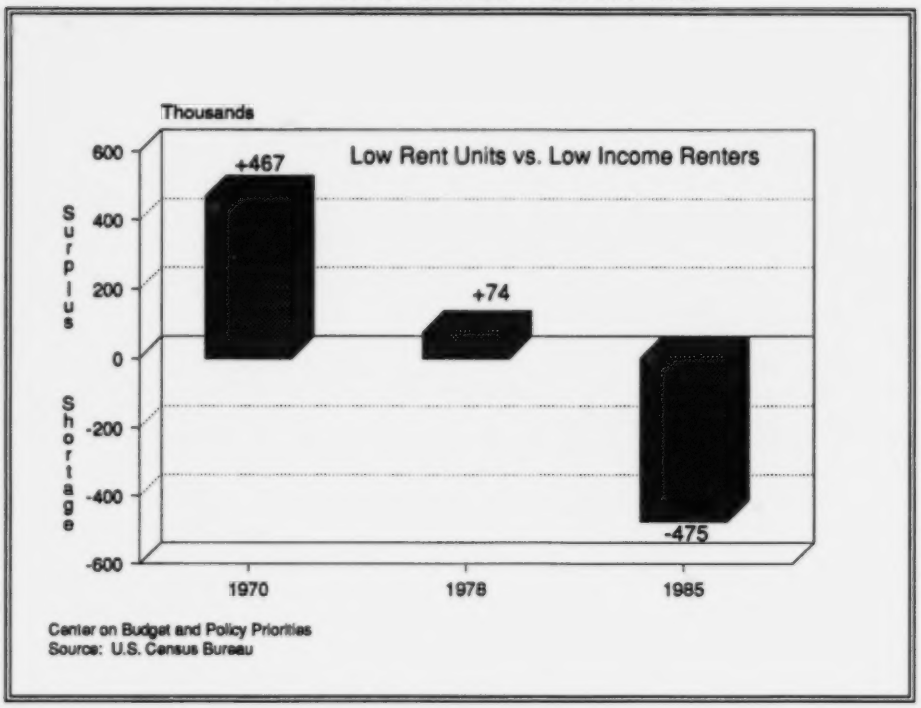
Figure 4
Low Income Renters and Low Rent Units
In Nonmetro Areas, 1970-1985



[15]In 1984, the Census Bureau changed the areas it designated as metropolitan and nonmetropolitan, reflecting changes in the nation's population distribution. As a result, some 28 percent of the nonmetro population was redesignated as metropolitan.

As Figure 4 reveals, both the number of low rent units and of low income renters declined between 1978 and 1985, in part a result of the significant decline in the nonmetro-designated population following the 1984 Census changes. However, the change in nonmetro areas from a low income rental surplus to a shortage was not merely a result of the change in metro/nonmetro designations. Data from the 1983 AHS, for which the nonmetro designations were the same as those used in 1970 and 1978, reveal a change from housing surplus to deficit in nonmetro areas. In 1983, there were 524,000 fewer low rent units than there were low income renter households in nonmetro areas, about the same gap as in 1985, after the changes in nonmetro designations.

Figure 5
The Growing Shortage of Affordable Housing
For Low Income Renters in Nonmetro Areas



Moreover, this comparison of the number of low cost units to the number of low income renters understates the extent of the low income housing shortage in several ways. First, not all low cost housing units are occupied by low income tenants. Second, this comparison does not take into account the condition of the units, how the units are distributed throughout the country, and whether they are in locations convenient to low income households (such as near places of employment).

In addition, since many low rent units in nonmetro areas are occupied by renters who are not low income households, the low rent housing supply available to those with limited incomes is further reduced.

- In 1985, only 1.3 million of the two million occupied rental units that cost $250 a month or less were actually occupied by households with incomes below $10,000 a year.

- Hence, of the 2.5 million renter households with incomes below $10,000, only about half lived in units with costs of $250 a month or less.

Poorest Face Most Serious Shortage

Homeownership in nonmetro areas is least likely for the poorest of households, those with incomes of $5,000 or less. Not surprisingly, the rental housing shortage is most severe for these households.

In 1985, some 1.2 million renter households living in nonmetropolitan areas had an income of $5,000 or less. These households comprised more than one-fifth of all nonmetro renter households. For rental housing to consume no more than 30 percent of the income of these "very low income" households, a unit must cost no more than $125 a month for rent and utilities. However, only 500,000 rental units were available with costs of $125 or less. Even if every one of these units were occupied by a very low income renter household (which was not the case), nearly three-fifths of the very low income renter households would have been unable to live in a housing unit costing no more than 30 percent of their income.

Housing Affordability Has Worsened

Moreover, between the late 1970s and 1985, these very low income households faced sharply rising housing costs. Escalating costs posed a problem for both homeowners and renters in this income category. (See Tables I and II.)

- In 1978, the typical nonmetro *homeowner* with an income of $5,000 or less spent $127 a month for housing costs. By 1985, the typical nonmetro owner at this income level spent $160 a month for housing, or 26 percent more than in 1978. (All figures are adjusted for inflation to be equivalent to 1985 dollars.)

- Housing costs for the typical nonmetro *renter* in this income bracket rose from $171 in 1978 to $197 in 1985, an increase of 15 percent after adjusting for inflation.

- The typical nonmetro homeowner with an income of $5,000 or less spent 37 percent of income to cover housing costs in 1978, but 48 percent in 1985.

- The typical nonmetro renter household with an income of $5,000 or less spent 58 percent of income for housing in 1978, but 67 percent in 1985.

Table I

Changes in Monthly Housing Costs for
Low Income Households in Nonmetro Areas, 1978-1985

Median Monthly Housing Costs	1978	1985	Percentage Change
Income Under $5,000			
Owners	$127	$160	+26.0%
Renters	$171	$197	+15.2%
Income Under $10,000			
Owners	$135	$163	+20.7%
Renters	$201	$213	+6.0%

NOTE: All figures are adjusted for inflation to be equivalent to 1985 dollars.

Center on Budget and Policy Priorities
Source: U.S. Census Bureau
American Housing Survey, 1985

Table II

Median Housing Costs as a Percent of Income for
Low Income Households in Nonmetro Areas, 1978-1985

	1978	1985
Income Under $5,000		
Owners	37.2%	48.2%
Renters	58.0%	66.5%
Income Under $10,000		
Owners	26.8%	31.7%
Renters	42.3%	45.3%

Center on Budget and Policy Priorities
Source: U.S. Census Bureau
American Housing Survey, 1985

II. A Comparison of Housing for the Poor in Nonmetropolitan and Metropolitan Areas

Housing costs consume a large proportion of income for many poor households in both metro and nonmetro areas. However, housing cost burdens tend to be more severe on poor households in metro areas.

The higher housing cost burdens borne by the metro poor reflect two basic differences between the housing for low income people in metropolitan and nonmetro jurisdictions. First, a much larger proportion of the nonmetro poor own their homes, and a considerable number of nonmetro poor homeowners have paid off their mortgages. (A majority of these households are elderly.) Households that have paid off their mortgages tend to have lower housing costs than other households. Second, both rent and mortgage costs are typically lower in nonmetro than in metro areas.

Still, while housing costs are typically lower in nonmetro areas, so are income levels. Nonmetro households are more likely to be poor or near-poor than metro households. Thus, nonmetro households are more likely to bear the high housing cost burdens associated with low income status. As a result, when *all* households are considered -- including both poor and non-poor households -- typical housing cost burdens (i.e., housing costs as a percent of income) are *not* appreciably different in nonmetro and metro areas.

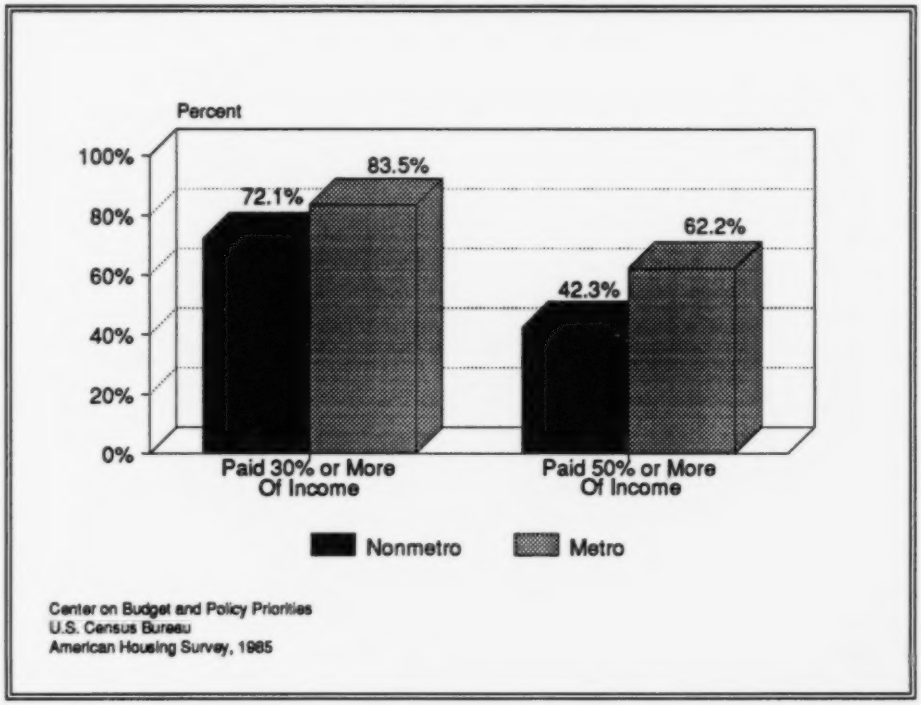
Moreover, the housing occupied by poor households in nonmetro areas is more likely to be substandard. This is discussed in detail in Chapter III.

Housing Cost Burdens of the Poor in Metro and Nonmetro Areas

The housing cost burdens encountered by metro poor households are even steeper than those faced by poor households in nonmetro areas.

- Some 72 percent of poor nonmetro households, including both owners and renters, paid at least 30 percent of income for housing in 1985.
- But 84 percent of metro poor households bore housing costs of this magnitude.
- Similarly, 42 percent of nonmetro poor households paid at least half of their income for housing in 1985. Some 62 percent of poor metro households had housing costs this high. (See Figure 6.)

Figure 6
Housing Cost Burdens of Poor Households
Nonmetro and Metro Areas, 1985



These differences occur in part because a much larger proportion of low income households in nonmetro areas own their homes, and many such households have paid off their mortgages.

Table III

Poor Homeowners and Renters in
Nonmetro and Metro Areas, 1985

	Homeowners		
	With Mortgage	With No Mortgage	Renters
Nonmetro	16.5%	38.3%	45.2%
Metro	11.9	19.9	68.2

Center on Budget and Policy Priorities
Source: U.S. Census Bureau
American Housing Survey, 1985

- In 1985, more than half of nonmetro poor households -- 55 percent -- owned their homes.

- In contrast, only 32 percent of poor metro households were homeowners.

- Moreover, nearly two of every five poor households in nonmetro areas -- 38 percent -- were homeowners who had paid off their mortgages. By contrast, only one-fifth of poor metro households -- 20 percent -- were homeowners who owned their homes free of mortgage payments. (See Table III.)

Homeowners who have paid off their mortgages generally have lower housing costs than either renters or owners with outstanding mortgages. (See Box on page 18.)

Most Nonmetro Households with Low Costs Are Homeowners with Paid-off Mortgages

Those nonmetro households that own their homes free of mortgage payments typically have much lower housing costs than other households. The primary housing costs incurred by these households are property taxes, and utility, insurance, and maintenance bills.

- In 1985, the typical nonmetro homeowner with a paid-off mortgage had monthly housing costs of $170.

- In comparison, the typical nonmetro homeowner with an outstanding mortgage spent $443 a month on housing, and the typical nonmetro renter spent $270.

Moreover, most households bearing low housing costs in nonmetro areas are homeowners who have paid off their mortgage.

- In 1985, 2.6 million nonmetro households had housing costs of $125 a month or less. Of these households, two million -- or 79 percent -- were homeowners who had paid off their mortgage.

- Similarly, of the 9.1 million nonmetro households with housing costs of $250 a month or less, some 6.5 million -- or 72 percent -- were households that owned their homes free of mortgage payments.

Thus, for those nonmetro households that have paid off their mortgage, housing costs are relatively low. However, for many of the low income households in nonmetro areas that are not homeowners with paid-off mortgages, affordable housing is difficult to find.

Not surprisingly, many housing units with low costs -- primarily homes with paid-off mortgages -- are occupied by households that are *not* poor. Of the 9.1 million nonmetro households with costs of $250 a month or less in 1985, some 5.4 million had incomes above $10,000.

A large proportion of the poor homeowners in nonmetro areas who have paid off their mortgages are elderly households that have owned their homes for long periods. In 1985, more than half of the poor homeowners in nonmetro areas who had paid off their mortgages were 65 years of age or older. Three-fourths were 55 or older. Just eight percent of poor owners with a paid-off mortgage were headed by someone 35 years old or younger. On the other hand, the overwhelming majority of poor renters and poor owners with an outstanding mortgage -- some 76 percent -- were non-elderly.

The pattern of greater homeownership in nonmetro areas relative to metro areas appears among higher income households as well. In fact, the proportion of *poor* households that own their homes in nonmetro areas -- 55 percent -- is greater than the proportion of *all* households in central city areas that are homeowners. In central cities, 48 percent of all households are homeowners.

Housing Costs Lower In Nonmetro Areas

The lower housing cost burdens faced by poor households in nonmetro areas also reflect typically lower housing costs, including both the costs of homeownership and of renting, in nonmetro than in metro areas.

Poor homeowners in nonmetro areas spend less for their mortgage costs, including principal and interest, than do poor homeowners in metro areas. In 1985, the typical poor nonmetro household with an outstanding mortgage spent $167 a month for principal and interest. In comparison, the typical poor metro household spent $196 a month on such costs, or 17 percent more than the typical poor nonmetro homeowner.

Lower homeownership costs in nonmetro areas reflect, in part, the much lower home values in nonmetropolitan areas. In 1985, the typical nonmetro poor homeowner's house was valued at $30,000. In contrast, the typical home value for poor homeowners in metro areas was $43,000.

Similarly, the value of the typical nonmetro home -- including both homes occupied by poor households and those occupied by non-poor households -- was $44,000 in 1985, compared with $69,000 in metro areas. A part of the difference in home values and costs is explained by the greater use of mobile homes in nonmetro areas, since mobile homes are typically lower in value than conventional homes. (See the Box on page 21.)

Rental housing costs are also lower in nonmetro than in metro areas. The typical poor renter living in a nonmetro area spent $207 a month for rent and

utilities in 1985, while the typical poor renter in a metro area had monthly housing costs of $282. Poor renters in metro areas thus bore housing costs more than one-third higher than the costs borne by poor renters in nonmetro areas.

Table IV
Typical Housing Costs of Poor Households
In Nonmetro and Metro Areas, 1985

	Nonmetro	Metro
Renters	$207	$282
Mortgage Costs	$167	$196

Center on Budget and Policy Priorities
Source: U.S. Census Bureau
American Housing Survey, 1985

One reason house values and rental costs are lower in nonmetro areas is that the nonmetro housing stock is often of poorer quality than the housing stock in metro areas. As will be discussed further in Chapter III, a larger proportion of housing units in nonmetro areas are dilapidated or lack basic necessities, such as plumbing, running water, or sewage disposal facilities.

Incomes Lower in Nonmetro Areas

Yet if homeownership and rental costs are typically lower in nonmetro areas, so are incomes.

- In 1985, the typical nonmetro household had an income of $17,586. By contrast, the income of the typical metro household was $23,252 -- or 32 percent higher.

- Furthermore, poverty rates are higher in nonmetro than in metro areas. In 1985, one of every five nonmetro households -- 20 percent -- was poor, while fewer than one in seven metro households -- 14 percent -- was poor.[16]

- In addition, nearly half of all nonmetro households -- 47 percent -- had incomes below twice the poverty line ($17,146 in 1985 for a family of three), compared with just one-third of metro households.

[16]Data from other Census Bureau sources show poverty rates for households in metro and nonmetro areas that are slightly different from the poverty rates reported in the American Housing Survey. In 1985, the Census' Current Population Survey reported that 18.1 percent of nonmetro households were poor, compared with 12.2 percent of metro households.

Mobile Homes More Prevalent in Nonmetro Areas

Nonmetro households are much more likely to live in mobile homes than are households living in metro areas.[17] Most mobile homes are owned by the occupant, and they typically have lower values than conventional "site-built" homes. As a result, mobile homes contribute to the relatively lower homeownership costs in nonmetropolitan areas.

- Some 1.6 million homeowners in nonmetro areas -- or 11 percent of all nonmetro homeowners -- lived in mobile homes in 1985.
- In contrast, only 5.5 percent of metro homeowners lived in mobile homes.

Because mobile homes are typically lower in value than conventional homes, they have lower costs for mortgage payments. These lower values result, in part, because most mobile home owners (63 percent) do not own the land on which the home rests, while nearly all conventional homeowners do own their land site. Second, the typical mobile home is much smaller than the typical conventional home. Finally, the centralized, large-scale factory production of mobile homes makes them cheaper to produce than conventional homes.[18]

For these reasons, the mortgage costs for nonmetro mobile home owners are typically less than the mortgage costs of site-built homes.[19]

- In 1985, the typical nonmetro mobile home owner with an outstanding mortgage spent $209 for principal and interest.
- The typical cost for principal and interest for a nonmetro homeowner living in a conventional home was $255.

As a result, the greater use of mobile homes in nonmetro areas is one of the factors contributing to the lower costs of housing in nonmetro than metro areas.

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[17]According to *Housing in Rural Areas*, a 1985 report of the Congressional Research Service, mobile homes are common in nonmetropolitan areas due to their low prices and the lower incidence of restrictive zoning laws in nonmetro than metro areas.

[18]Mobile home ownership presents several disadvantages, financial and other, compared with owning a conventional home. First, the useful life expectancy of a mobile home is estimated to be 30 years, while the estimated life expectancy of a conventional home is 80 years. Second, the value of a mobile home typically depreciates over its life, or appreciates much less than the value of conventional homes. Thus, the ability to use a mobile home as an investment, a means of savings, or source of credit is much lower than through ownership of a conventional home.

In addition, mobile homes are less energy efficient than conventional homes, with much higher energy costs per square foot than for site built homes. New standards for mobile home energy efficiency have been mandated by federal legislation, but have not yet been implemented.

Finally, most mobile home owners rent the land upon which their home sits, and they typically are not granted long-term leases. Therefore, these mobile home owners face being forced to move and find a new location for their home. (See *Manufactured Housing: Trends and Prospects*, Congressional Research Service, April 1988.)

[19]Data on the rent paid by mobile home owners whose units sit on rented sites are unavailable. If such costs were included, the homeownership costs for mobile home owners would be higher than indicated in this report.

Because nonmetro households are more likely than metro households to be poor or near-poor, they are also more likely to bear the high housing cost burdens associated with low income status. As a result, although housing cost burdens for *poor* nonmetro households are lower than those for *poor* metro households, typical housing cost burdens for *all* nonmetro households – including both poor and non-poor households – are about the same as the typical burdens borne by their metro counterparts.

- Nonmetro homeowners with outstanding mortgages -- including both poor and non-poor homeowners -- typically spent 22 percent of income for housing in 1985. The typical metro homeowner spent 21 percent of income for housing.

- Both nonmetro and metro homeowners who had paid off their mortgages typically spent l4 percent of income for housing.

- The typical nonmetro renter bore housing costs that equaled 26 percent of income. The typical metro renter spent 28 percent of income for housing.

In short, when both the lower housing costs and the lower income levels in nonmetro areas are taken into account, housing affordability does not differ significantly in nonmetro and metro areas.

III. Housing Quality in Nonmetropolitan Areas

Not only do many poor households in nonmetro areas bear high housing cost burdens, but large numbers also live in substandard housing. In 1985, nearly one in every four poor households in nonmetro areas -- or 23 percent -- lived in substandard housing (that is, in units classified by the Department of Housing and Urban Development as having "severe" or "moderate" physical deficiencies; see next page for the definitions of severe and moderate deficiencies.) Nearly 900,000 poor nonmetro households lived in these conditions in 1985.

Poor nonmetro households were *more than three times as likely* to live in substandard housing as were nonmetro households that were *not* poor. Fewer than one in 14 non-poor households in nonmetro areas -- 7.2 percent -- occupied substandard housing units in 1985. (See Figure 7.)

Furthermore, poor nonmetro households were more than five times as likely as non-poor households in nonmetro areas to live in *severely* substandard housing.[20]

The disparity in nonmetro areas between the quality of the housing occupied by poor and non-poor households is reflected in other housing quality measures as well:

- While poor nonmetro households made up 20 percent of all nonmetro households, they occupied 44 percent of all nonmetro housing units with evidence of rats, 55 percent of the units without complete bathrooms, 54 percent of the units with holes in the floor, 43 percent of the units with cracks or holes in the walls, and 46 percent of the units with weak foundations.

[20]For both poor and non-poor households whose units have physical deficiencies, the deficiencies were more likely to be moderate than severe.

HUD's Definitions of Substandard Housing

The following are the criteria used by the Department of Housing and Urban Development and the Bureau of the Census to classify housing units as having severe or moderate physical or structural deficiencies.

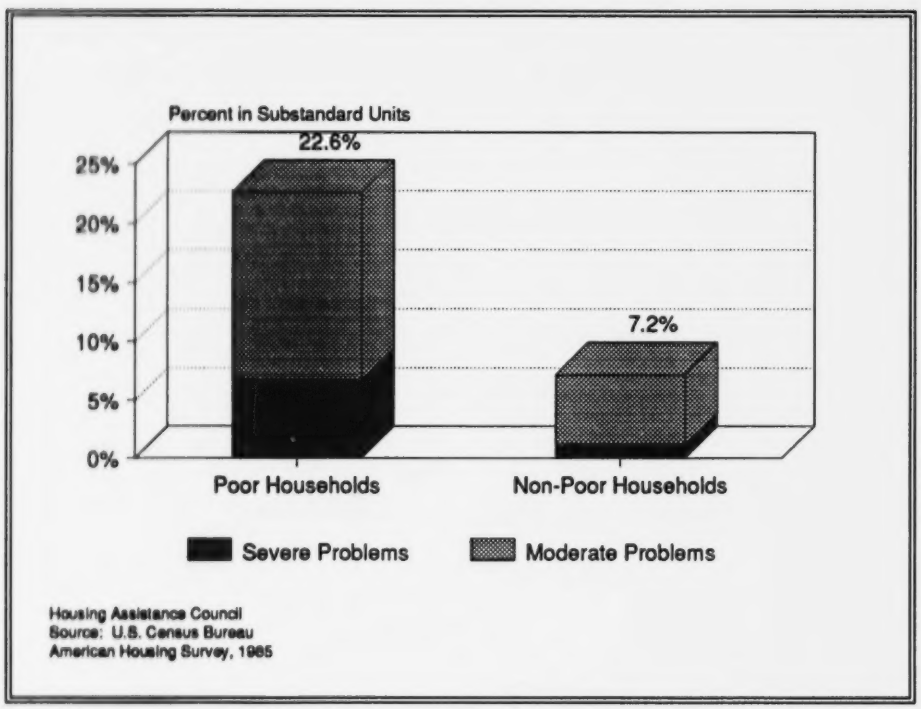
Severe Physical Problems - A unit is classified as having severe physical problems if it has one or more of the following five deficiencies:

- It lacks, within the unit, hot or cold water or a flush toilet, or both a bathtub and a shower;
- The heating equipment broke down at least three times in the previous winter for six hours or more, resulting in the unit being uncomfortably cold for 24 hours or more;
- The unit has no electricity, or it has exposed wiring, a room with no working wall outlet, *and* three blown fuses or tripped circuit breakers in the last 90 days;
- The unit is in a building where hallways, staircases, or other public areas have nonworking light fixtures, loose or missing steps, loose or missing railings, *and* no elevator;
- The unit has at least five basic maintenance problems such as water leaks, holes in the floors or ceilings, peeling paint or broken plaster, or evidence of rats or mice in the last 90 days.

Moderate Physical Problems - A unit is classified as having moderate physical problems if it does not have any of the severe problems, but has one or more of the following five deficiencies:

- On at least three occasions in the last three months, all flush toilets were broken down at the same time for at least six hours;
- The unit has unvented gas, oil, or kerosene heaters as its primary heating equipment;
- The unit lacks a sink, refrigerator, or either burners or an oven;
- The unit has three of the four hallway or staircase problems listed above;
- The unit has at least three of the basic maintenance problems listed above.

Figure 7
Substandard Housing in Nonmetro Areas, 1985



A Comparison of Housing Quality in Metro and Nonmetro Areas

Even when compared with poor households in metro areas, the nonmetro poor occupy a disproportionate share of physically deficient housing units.

- Although the nonmetro poor constituted 29 percent of all poor households in the United States in 1985, they made up 32 percent of the poor households living in housing with moderate physical deficiencies and 36 percent of the poor households living in units with severe physical deficiencies.

- Nonmetro poor households also constituted 38 percent of the poor households in units with water leaks from outside, 48 percent of the poor households in units with inadequate heating equipment, 71

percent of those with an inadequate water supply, and 75 percent of those with inadequate sewage disposal.[21]

These disparities widen further when households in the most rural areas are compared with other U.S. households. (Published data are available covering *all* households in rural nonmetro areas, but not *poor* households in these areas.) In 1985, some 12 million households, including both poor and non-poor households, lived in these most rural areas (defined as nonmetropolitan areas with no population center of more than 2,500 residents).

- These rural nonmetro households constituted 14 percent of all households in the country, but they occupied 22 percent of the units with severe physical deficiencies.

- These rural nonmetro households also constituted 33 percent of all households living in units with inadequate heating equipment, 34 percent of those in units without any complete bathrooms, 59 percent of those in units with inadequate water supplies, and 67 percent of those in units with inadequate waste disposal.

The housing quality problems most widespread in nonmetro areas are more likely to be hazardous to health or costly to remedy than the housing quality problems most characteristic of metro areas. While problems in nonmetro areas disproportionately include lack of plumbing or bathroom facilities, unsanitary waste disposal or water facilities, leaky roofs, and other major structural flaws, problems in central cities are more likely to involve maintenance and upkeep -- such as infestation of rodents, peeling paint or broken plaster, boarded up or broken windows, and cracks or holes in interior walls. Central city units make up about one-third of occupied housing units nationwide, but represent about half of the units with the problems just mentioned.

Furthermore, the nonmetro households occupying the units with the most serious physical problems tend to be the poorest households -- and thus the least able to afford major improvements or repairs.

- In 1985, the median income for all nonmetro households was $17,944. For nonmetro households living in units with moderate physical deficiencies, the median income was $11,023. But for nonmetro

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[21]Disparities in housing quality between nonmetro and metro households also appear when *all* households -- rather than just *poor* households -- are examined. Nonmetro households constituted 22 percent of all households nationwide, but occupied 29 percent of the units with severe physical problems, 44 percent of the units without adequate heating equipment, 60 percent of the units with inadequate water supply, and 69 percent of the units with inadequate waste disposal.

households living in units with severe physical deficiencies, the median income was only $6,861.

Data Understate Substandard Housing Problems in Nonmetro Areas

Disturbing as these data are, they *understate* the extent of housing quality problems in nonmetro areas. The Census Bureau and HUD have reported flaws in the 1985 American Housing Survey data on units with inadequate plumbing facilities. Technical problems in the survey questionnaire resulted in much of the data on plumbing problems being of such poor quality that they could not be used. Accordingly, Census and HUD stated that they "suppressed data on plumbing facilities because changes in the wording and order of the questionnaire produced serious deficiencies in the data."

The result is a substantial undercount of housing units with inadequate plumbing facilities. This, in turn, leads to a large undercount of the units with severe physical problems, particularly in nonmetro areas. Historically, the most common cause of severely substandard housing, especially in nonmetro areas, has been lack of complete plumbing.

The effect of this undercount is illustrated by comparing the housing survey data for 1983 and 1985. In the 1983 American Housing Survey, some 2.9 million housing units nationwide were found to have severe physical problems. By contrast, in the 1985 survey, fewer than 1.6 million units were found to have these problems -- a drop of 46 percent in just two years. Much of this decline appears to result from the deficiencies in the 1985 survey data on plumbing facilities.

This undercount of the number of units with plumbing problems has a much greater effect on the data for nonmetro areas than on the metro data. Historically, nonmetro areas have a much larger share of the housing with inadequate plumbing facilities than metro areas do. In 1983, for example -- when the data on plumbing facilities were collected in a proper fashion -- the proportion of nonmetro households living in housing without adequate plumbing facilities was *nearly four times as great* as the proportion in metro areas.

As a result, the data on substandard housing that are presented in this chapter, which are from the 1985 survey, significantly understate the housing quality problems in nonmetro areas, as well as the extent to which nonmetro areas have a greater incidence of substandard housing than metro areas do.

IV. Housing Assistance for the Poor

Despite a pledge in the Federal Housing Act of 1949 of "a decent home and a suitable living environment for every American family," and despite a growing shortage of affordable housing in the private market, the federal government provides housing assistance to only a fraction of the poor households in nonmetro areas. Census Bureau data show that fewer than one in three poor renter households in nonmetropolitan areas now benefit from such aid.

- In 1987, only 535,000 of the 1.8 million nonmetro renters with incomes below the poverty line -- 29 percent of such households -- lived in public housing or received a rental subsidy from a federal, state, or local housing assistance program.

- In other words, more than seven of every 10 poor renter households in nonmetro areas neither live in public housing nor receive a rent subsidy to help meet high housing cost burdens.

- The proportion of poor renters in metro areas who receive housing assistance, which is 30 percent, is about the same as the proportion of poor renters receiving such assistance in nonmetro areas.

In nonmetro areas, much of the government's housing assistance for the poor is targeted to homeowners rather than renters. The Farmers Home Administration (FmHA) of the Department of Agriculture is the "lender of last resort" for low income rural households that seek to purchase a home but are, because of low incomes and assets, "unable to obtain credit elsewhere."[22] In 1988,

[22]Except for some limited recent policy initiatives to allow public housing residents to purchase their homes, there are very few resources directed to assisting poor homeowners in metropolitan areas.

the most recent year for which data are available, roughly two-thirds of all new FmHA commitments were provided for homeowners rather than renters.

Nevertheless, only a modest fraction of the low income households in nonmetro areas that apply for homeownership assistance receive such aid. Constrained by limited funding, the supply of rural homeownership assistance falls far below the number of applicants.

- In 1988, some 145,000 families requested homeownership assistance from FmHA. Just 36,000 of these families received assistance.[23]

Moreover, most of the households that receive homeownership assistance in nonmetro areas are not poor, but have incomes modestly above the poverty line. In 1988, the average income of households receiving FmHA homeownership loans was $13,364, while the poverty line for a family of three was $9,435. In 1985, only one in four FmHA homeownership borrowers in nonmetro areas had incomes below the poverty level.[24]

The nonmetro households receiving rental assistance typically have much lower incomes than those receiving homeownership assistance. In 1986, the most recent year for which data are available, the average income of FmHA rental project tenants was $8,175.

It should be noted that since 1983, FmHA has been required to set aside a portion of its low income housing assistance for "very low income" households, defined as those whose incomes fall below 50 percent of the median household income in their area. More than half of all rental and ownership units produced with FmHA funds in 1988 were provided for these very low income households.[25]

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[23]These figures refer to applications for rural homeownership and home improvement loans for the 1988 fiscal year. From *FmHA Housing Activity Report*.

[24]Under the Section 502 program, low income households can receive a subsidized mortgage with an interest rate as low as one percent. Nevertheless, to qualify for a Section 502 loan, households must demonstrate the ability to afford their new home, including mortgage payments, taxes, and insurance. These payments must not exceed a set proportion of their income, usually 20 percent. For many poor households, especially in areas of high housing costs, the mortgage interest subsidy would not be sufficient to lower the costs of purchasing a home to a level they could afford. The ability of this program to serve poor households thus is limited.

[25]Before 1983, FmHA programs were required "to the extent practicable" to reserve 30 percent of their funds for very low income households. The changes enacted in 1983 not only entailed targeting a larger share of FmHA funds on very low income households, but also strengthened the requirements for meeting the targeting goals.

Thus, over time, FmHA assistance programs are being targeted more on very low income households.

- In 1983, only 22 percent of all FmHA assistance -- including both homeowner and renter assistance -- went to very low income households.

- By 1988, some 55 percent of FmHA assistance was provided to very low income households.

Housing Assistance More Limited than Other Safety Net Assistance

The proportion of nonmetro poor households that receive housing assistance is much lower than the proportion receiving most other forms of basic noncash assistance for low income people.

- Census data show that 74 percent of poor nonmetro households with school-age children received free or reduced-price school lunches in 1987, while 43 percent of poor nonmetro households received food stamps. Some 41 percent had Medicaid coverage.

- In contrast, only 29 percent of poor nonmetro renters were aided through a government housing program.[26]

Most other safety net programs serve a larger proportion of poor households largely because these programs are entitlements -- programs for which families or households are "entitled" to benefits if they meet certain eligibility tests. The housing programs are not entitlements, however. Poor households are not legally entitled to federal housing assistance even if they meet all income and other eligibility criteria.

Rather, the number of households served by the housing programs is limited to the number that can be assisted within the amounts appropriated by Congress for these programs. Just as the number of applicants for rural

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[26]The percentage of *eligible* households -- rather than of all poor households -- receiving benefits in these programs may be somewhat higher, particularly in programs that have assets limits that make some low income households ineligible. For example, the Congressional Budget Office recently estimated that 41 percent to 58 percent of all eligible households (and between 51 percent and 66 percent of all eligible individuals) receive food stamps. By contrast, the Congressional Budget Office estimates that only 25 percent to 33 percent of the eligible low income households received housing assistance in 1988. These various participation estimates include participation by households that have incomes above the poverty line but that qualify for the programs. The estimates exclude households that have incomes below the poverty line but that do not qualify, for reasons such as failing to meet program assets limits.

homeownership assistance far exceeds what is available, similar indications reveal a much greater demand for rental assistance than is available.[27]

Large Reductions in Funding for Federal Housing Programs

Despite a growing need for housing assistance in nonmetro areas, federal housing programs have been subject to sharp budget reductions in the past decade.

There are two major sources of low income housing assistance in nonmetro areas -- the Farmers Home Administration and the Department of Housing and Urban Development. FmHA administers rural housing programs which include rental and homeownership assistance, as well as special programs for farmworkers, the elderly, and self-help organizations.

FmHA assistance goes primarily to nonmetropolitan areas. In 1987, some 87 percent of FmHA rental projects were located in nonmetropolitan areas, with the remainder in rural portions of metropolitan areas.[28] Similar data covering FmHA homeowner assistance are unavailable.

In contrast, the Department of Housing and Urban Development provides most of its assistance to renters in metropolitan areas. In 1986, some 79 percent of HUD-assisted units were located in metropolitan areas. The remaining 21 percent were located in nonmetro areas.

Both FmHA and HUD housing programs have been cut sharply in the last decade. According to a recent study of the Congressional Budget Office[29]:

- The combined total of new lending authority for FmHA's direct loan programs (the best measure of yearly activity in such programs) and appropriations for FmHA's rental assistance programs dropped from

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[27]For Fiscal Year 1989, Congress appropriated $555 million for the development of FmHA rental projects (Section 515). By February 1989, four months into the fiscal year, applications for $1.5 billion in such assistance had been received. From *FmHA State Office Survey*, January 23, 1989.

[28]This is a Housing Assistance Council estimate, based on Farmers Home Administration documents.

[29]Congressional Budget Office, *Current Housing Problems and Possible Federal Responses*, December 1988. Figures for 1988 are from unpublished CBO documents.

$3.7 billion in FY 1978 to $2.1 billion in FY 1988, a decline of nearly 70 percent after adjusting for inflation.[30]

- Appropriations -- or new spending authority -- for HUD's subsidized housing programs fell from a peak of $32.2 billion in fiscal year 1978 to $9.8 billion in fiscal year 1988. After adjusting for inflation, this this is a decline of more than 80 percent.[31]

Part of the decline in appropriations, especially for HUD programs, reflects a shift in federal housing policy from more costly construction and rehabilitation of low income housing to less costly tenant-based subsidies that allow recipients to obtain housing from the existing, primarily private, rental housing stock. (See Appendix B for a brief description of FmHA and HUD housing programs.)

In addition, it should be noted that the deep reduction in appropriations for subsidized housing during this period is not matched by decreases in actual expenditures -- or outlays -- for the housing programs. In fact, outlays for federal housing programs rose during this period, as did the number of households receiving assistance. This occurred, despite sharp cuts in appropriations, for two reasons. First, funds appropriated in a given fiscal year for most housing assistance programs are actually spent over periods of five to 20 years. Most of the funds appropriated in the 1970s were not expended until the 1980s.

Second, each year Congress appropriates funds to provide housing assistance to new families. Combined with long-term commitments to families currently receiving assistance, the new commitments result in a steadily increasing number of recipients of housing assistance. As the total number of recipients grows, so do the amounts actually spent each year for such assistance. Overall, subsidized housing outlays for HUD and FmHA programs rose steadily from $3.9 billion in fiscal year 1978 to $16.6 billion in fiscal year 1988.[32]

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[30]When measured in constant 1987 dollars to remove the effects of inflation, the loan authority and appropriations decreased from $6.2 billion in FY 1978 to $2.0 billion in FY 1988.

[31]CBO found that when the appropriations levels were measured in constant 1987 dollars to remove the effects of inflation, they fell from $53 billion in FY 1978 to $9.5 billion in FY 1988.

[32]When measured in constant 1987 dollars to remove the effects of inflation, outlays increased from $6.8 billion fiscal 1978 to $16.1 billion in fiscal 1988.

Fewer Additional Low Income Households Receiving Assistance in the 1980s

These two seemingly contradictory developments -- sharp declines in appropriations levels and new lending authority, along with substantial increases in spending levels -- have confused some who have attempted to unravel recent trends in federal housing policy. In fact, *neither* the annual appropriations and loan levels nor the annual outlay levels provide the best measure of federal commitment to subsidized housing programs.

Rather, the best measure is the number of additional low income households assisted through the federal housing programs each year. The number of households with low incomes in nonmetro areas has increased markedly over the past decade.[33] However, there has not been a similar increase in the number of low cost units in the private housing market. As a result, the number of low income households aided through government housing programs must rise substantially each year just to keep the shortage of affordable housing from growing larger.

When the federal commitment to low income housing is measured by the number of additional low income households assisted each year, a sharp retrenchment in federal support for low income housing becomes apparent in both nonmetro and metro areas. The number of additional low income households assisted each year has fallen sharply. This has exacerbated the growing shortage of affordable housing. (See Figure 8.)

- From fiscal year 1977 though fiscal year 1980, FmHA made commitments to assist an average of 142,000 additional renter and homeowner households per year. From fiscal year 1981 through fiscal year 1988, the number of new commitments dropped to an average of 75,000 per year -- a reduction of nearly 50 percent.

- If the number of additional households assisted by FmHA programs in the 1980s had remained at the same average rate as in the late

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[33]According to the *Current Population Survey* of the Bureau of the Census, the poverty rate in nonmetro areas grew from 13.5 percent in 1978 to 18.3 percent in 1985. The poverty rates in nonmetro areas in the 1980s have been higher than in any year of the 1970s, except 1970 and 1971.

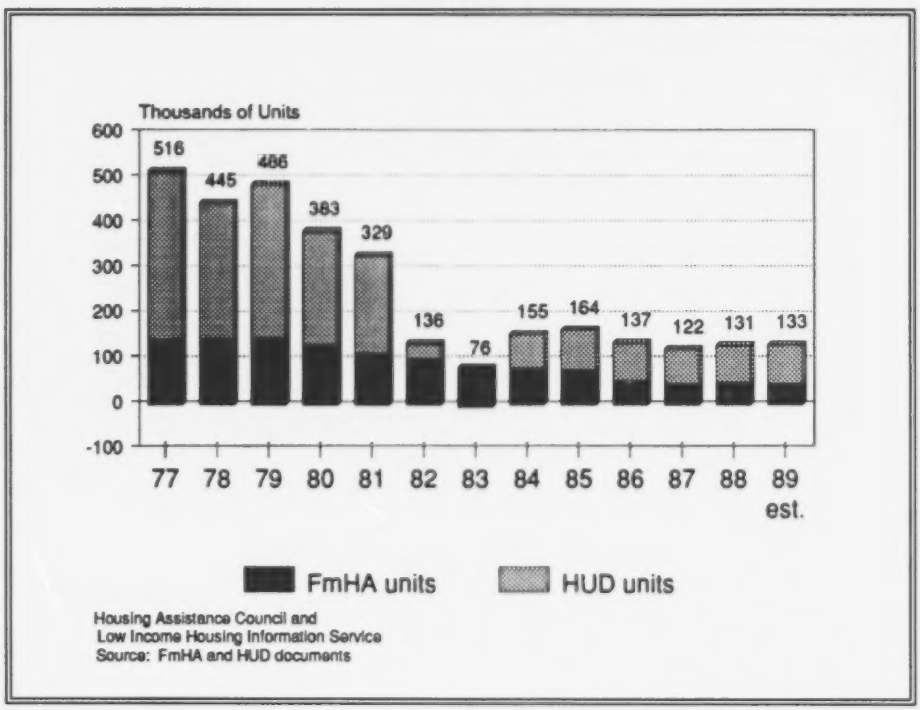
The *number* of low income households in nonmetro areas has also grown substantially. As noted in Chapter I, changes in the Census Bureau's designations of nonmetro areas in 1984 resulted in a significant decrease in both the overall nonmetro population and the nonmetro poor population. As a result, the 1985 data do not appropriately reflect the growth in the number of low income nonmetro households. However, between 1978 and 1983, when the nonmetro-designated areas remained the same, the number of low income homeowner households (those with income of less than $10,000) in nonmetro areas grew from 3.6 million to 4.2 million, while the number of low income renters in nonmetro areas increased from 2.5 million to 3.1 million.

1970s, more than half a million additional households (536,000) in rural areas would now be receiving housing assistance.

- The cuts in HUD assistance programs have been even more dramatic. From fiscal year 1977 through fiscal year 1980, HUD made commitments to provide federal rental assistance to an average of 316,000 additional households per year. From fiscal year 1981 through fiscal year 1988, however, the number of such additional households dropped precipitously -- to an average of only 82,000 per year. In other words, the number of additional low income renters receiving housing assistance each year fell by nearly three-fourths.

- If the number of additional low income renters aided by HUD in the 1980s had remained at the same average rate as in the late 1970s, there would now be commitments for assistance to an additional 1.9 million low income households.

Figure 8
New Housing Commitments of FmHA and HUD
1977-1989



Rural Assisted Housing Units at Risk of Loss

If no government action is taken, housing problems for the rural poor could worsen considerably in coming years. Thousands of privately owned but federally subsidized housing units in rural areas could be removed from the low income housing inventory over the next decade and converted to other uses or to market-rate rental units with costs that poor households could not afford.

Under the FmHA Section 515 program, federal mortgage subsidies have been provided to private developers in rural areas who, in turn, have agreed to lease some of their units to low and moderate income tenants. Under these programs, building owners generally received mortgages with one percent to three percent interest payable over 50 years.

Until 1980, owners were permitted to quit the subsidy program at any point by paying off the outstanding balance of their mortgages. They would then be free to charge whatever rents the market would bear or convert the property to other uses such as condominiums. Low income tenants could be required either to pay substantially higher rents or find other housing. Legislation passed in 1980 prohibited owners of all *new* FmHA projects from "prepaying" their mortgage for the first 20 years; owners of projects financed before 1980 remained free to prepay at any time.

Since 1984, loans on over 7,200 FmHA-financed rental units in 400 projects have been prepaid by project owners. For these owners, it was more lucrative to prepay their mortgages and either sell their interest in these projects or receive market-rate rents rather than to continue reserving the units for low income tenants.

Recently enacted legislation placed several new restrictions on mortgage prepayments by *all* owners of Section 515 projects, including projects for which the loans originated before 1980.[34] The legislation required FmHA to offer incentives to owners to encourage them to stay in the program for 20 more years. Owners who reject such incentives must first offer to sell their projects to nonprofit or public agencies at a determined "fair market value," with financing provided by FmHA.

Despite these new restrictions, many owners of subsidized projects still are attempting to prepay their mortgages. A recent Housing Assistance Council survey of 20 FmHA state offices found that between May 1988 and October 1989,

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[34]This legislation is the 1987 Housing and Community Development Act.

FmHA received requests for loan prepayments covering 217 projects with 7,000 low cost units. Most of these requests are still pending, but FmHA has approved prepayment requests for 44 projects with over 600 units.[35]

Thus, despite the legislation restricting prepayments, tens of thousands of subsidized rural housing units remain at risk of being removed from the subsidized housing stock. The units with the greatest likelihood of prepayment are those units built before 1980 in growth areas, where private rental costs are highest and affordability problems for low income renters are greatest.

About half of the current FmHA rental inventory of 400,000 units was financed before 1980 and consists of projects eligible for prepayment. The remainder, those built after 1980, will be eligible for prepayment starting in less than 15 years, when their 20 year use restrictions begin to expire.

Most Federal Housing Expenditures Benefit Higher Income Families

In contrast to the decline in federal low income housing assistance, there has been a substantial increase in federal housing assistance that primarily benefits middle and upper income families. Each year the federal government provides billions of dollars in benefits to homeowners by allowing them deductions -- primarily mortgage interest and property tax deductions -- from otherwise taxable income. These deductions reduce the total amount of federal income taxes paid by homeowners and thus are an indirect federal housing subsidy for homeowners. Such subsidies resulting from tax deductions, credits, or other tax breaks are technically termed "tax expenditures," since they entail government spending through the tax code.

When federal housing subsidies are considered as a whole -- including both direct federal spending through housing programs and tax expenditures provided through the Internal Revenue Code -- it becomes clear that the federal subsidies provided through tax expenditures are far greater than the subsidies provided through direct federal spending on housing programs.

- In fiscal year 1988, direct spending on federal low income housing assistance programs -- including both FmHA and HUD programs --

[35]As of October 10, 1989, some 138 prepayment applications covering 5,300 units were still pending. Among those applications that are neither pending nor approved, some were withdrawn and some were rejected. In the remaining cases, project owners accepted FmHA incentives to continue in the subsidy program.

was $13.9 billion. In that same year, federal tax expenditures for housing totalled $53.9 billion.[36]

The wide disparity between the government housing assistance provided through tax expenditures and that provided through housing programs results in a subsidy system strongly tilted toward those who are already more affluent. Data published by the Congressional Joint Committee on Taxation indicate that the benefits from housing-related tax expenditures accrue disproportionately to those at the upper end of the income spectrum. According to the Committee's estimates:

- In 1987, roughly 75 percent of the benefits from housing-related tax expenditures went to people in the top 15 percent of the income distribution.[37]

As a result, an estimate of the distribution of all federal housing subsidies -- including both tax subsidies and those provided through the housing programs -- shows that the lion's share of the benefits go to those at the top, not those at the bottom of the income spectrum. (See Table V.)

- In 1988, households with incomes below $10,000, which constituted roughly the bottom sixth of all households, received fewer than one-sixth of all housing subsidies.

- Meanwhile households with incomes above $50,000, or roughly the top fifth of households, received more than half of all housing subsidies.

- For all households with incomes below $10,000, the average annual subsidy was approximately $600, while the average annual subsidy for all households with incomes above $50,000 was about $2,000 -- or more than three times as high.

Although poor nonmetro households are more likely than metro households to own their own homes, they are not likely to receive significant tax benefits from homeownership. The largest homeowner subsidies are derived from deductions of mortgage interest, and only 17 percent of poor nonmetro households are

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[36]The outlay figures used in these calculations reflect an Office of Management and Budget calculation of HUD and FmHA housing assistance that includes a somewhat different set of programs than the CBO totals referred to earlier in this chapter.

[37]*Estimates of Federal Tax Expenditures for Fiscal Years 1988-1992*. Prepared by the staff of the Joint Committee on Taxation, February 27, 1987. The Joint Tax Committee's estimates are based on a model with tax laws in effect through the end of 1986 and previous historical patterns of tax returns.

homeowners with a mortgage outstanding. Moreover, poor nonmetro homeowners fall into low tax brackets and thus gain much less from the tax deduction than do those in higher tax brackets.

Table V

Estimated Distribution of Housing Subsidies
By Household Income, 1988

(Subsidies in billions)

Annual Income	Tax Expenditures	Low Income Housing	Total Amount	% of Total
Under $10,000	$0.1	$10.1	$10.1	15.7%
$10,000 to $20,000	$1.1	$2.7	$3.8	5.9%
$20,000 to $30,000	$3.8	$1.0	$4.9	7.6%
$30,000 to $40,000	$5.4	$0.0	$5.4	8.4%
$40,000 to $50,000	$6.6	$0.0	$6.6	10.2%
$50,000 and over	$33.6	$0.0	$33.6	52.2%

Source: Low Income Housing Information Service calculations, based on Joint Tax Committee and Office of Management and Budget documents.

V. Characteristics of Poor Households

Poor households living in nonmetro areas differ in several respects from poor households in metropolitan areas. The nonmetro poor are much more likely to be white, elderly, and to live in the South than are poor households in metro areas. Nonmetro poor households are also more likely to be married and to be employed than poor households in metropolitan areas.

Household Income

In 1985, most nonmetro households that were poor had incomes well below the poverty level, which was $8,573 for a family of three. Three-fifths of all poor households living in nonmetropolitan areas had incomes below $5,000. A similar proportion of poor households in metro areas had incomes of less than $5,000.

Racial Composition of Poor Households

In nonmetropolitan and metropolitan areas, a majority of poor households are white. However, whites are a much larger proportion of both the overall nonmetro population and the nonmetro poor population than they are of the metro population.

- More than three of every four poor nonmetro households were white in 1985. Some 18 percent were black and four percent were Hispanic.

- In metropolitan areas, whites made up 55 percent of the poor households in 1985, while blacks made up 29 percent and Hispanics made up 14 percent. (See Table VI.)

Table VI

Racial Composition of Poor Households
Nonmetro, Metro, and Central City Areas, 1985

	Nonmetro	Metro	Central City
White	75.9%	54.9%	42.8%
Black	18.1%	29.3%	38.4%
Hispanic	3.6%	13.5%	16.0%

Center on Budget and Policy Priorities
Source: U.S. Census Bureau
American Housing Survey, 1985

While whites constituted a majority of poor nonmetro households, the incidence of poverty among blacks and Hispanics living in nonmetro areas is much greater than among white households.

- *Nearly half* of all black households living in nonmetro areas -- 47 percent -- were poor in 1985.
- Three of every 10 Hispanic households living in nonmetro areas -- 30 percent -- had incomes below the poverty level.
- One of every six white households in nonmetro areas -- 17 percent -- was poor in 1985.[38]

For both black and white households, the incidence of poverty is greater in nonmetro areas than in both metro areas and central cities. Hispanic households living in central cities, on the other hand, are just as likely to be poor as are Hispanics living in nonmetro areas. (The difference in poverty rates between nonmetro and central city Hispanics is not statistically significant.)

[38]As noted in chapter II, the American Housing Survey data reflect slightly different poverty rates from another Census Bureau source, the Current Population Survey.

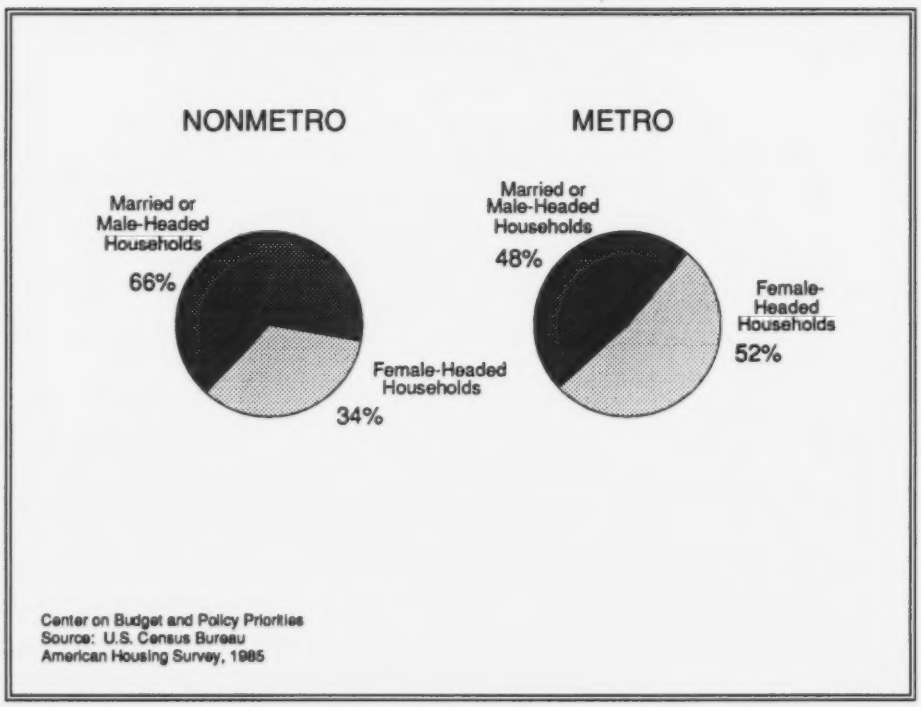
Nonmetro Poor More Likely To Be Married, Elderly

The characteristics of poor households in nonmetropolitan areas differ in a number of ways from those of the poor in metro areas. For example, nonmetro poor households are more likely to include married couples and are less likely to be female-headed families than are poor households in metro areas.

- Of the poor nonmetro households that contained two or more people, 66 percent were married-couple families or male-headed families.

- By contrast, among poor metro area households of two or more people, 52 percent were female-headed families. (See Figure 9.)

Figure 9
Composition of Poor Households of Two or More Persons
In Metro and Nonmetro Areas, 1985



Among both metro and nonmetro poor households, a large majority of poor single-person households consist of women living alone, and many of these women are elderly.

- In 1985, nearly three of every four poor single-person households living in a nonmetropolitan area -- 74 percent -- consisted of women living alone.

- *Elderly* women made up some 53 percent of poor single-person households in nonmetro areas.

Poor nonmetro households are more likely than poor metro households to be headed by an elderly person.

- In 1985, more than one in three poor nonmetro households -- 37 percent -- was headed by an elderly person. The typical poor nonmetro household head was 55 years old.

- In contrast, one in four poor metro area households -- 27 percent -- was headed by an elderly person. The typical poor metro area household head was 46 years old.

Employment Higher Among Nonmetro Poor

Poor residents of nonmetro areas are also more likely than the poor in metro areas to have one or more family members who work.

- In 1987, nearly two-thirds of poor families living in nonmetro areas contained at least one worker, and nearly one-quarter had at least two workers. By contrast, a little more than half of metro poor families had at least one worker and a little less than one-sixth had two or more workers.

- Moreover, in almost one-fourth of all nonmetro poor families headed by someone who was not retired, ill, or disabled in 1987, the family head worked full time throughout the year. By comparison, the family head worked full time throughout the year in about one-sixth of all poor metro families headed by someone not retired, ill, or disabled.[39]

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[39]Isaac Shapiro, *Laboring For Less: Working but Poor in Rural America*, Center on Budget and Policy Priorities, 1989.

Nonmetro Housing Problems Greatest in the South

The Census Bureau divides the United States into four regions: Northeast, Midwest, South, and West. Both the distribution of nonmetro households and the housing problems faced by these households vary by region. Households living in nonmetropolitan areas of the South are more likely to be poor and to face serious housing problems than nonmetro households in other regions.

While metropolitan households are almost evenly divided among the four regions, nonmetropolitan households are concentrated in the South and Midwest.

- In 1985, three of every four nonmetro households lived in either the South (where 42 percent lived) or the Midwest (where 33 percent lived). Only 11 percent of nonmetro households lived in the Northeast, and 14 percent lived in the West.

Nonmetro households living in the South are much more likely to be poor than such households living in other regions. In 1985, one of every four nonmetro households in the South was poor, compared with one in six in the Northeast, Midwest and West. As a result, a large proportion of nonmetro poor households live in the South. More than half of all nonmetro poor households in the nation -- some 51 percent -- resided in the South in 1985. A little more than one-fourth -- 28 percent -- lived in the Midwest.

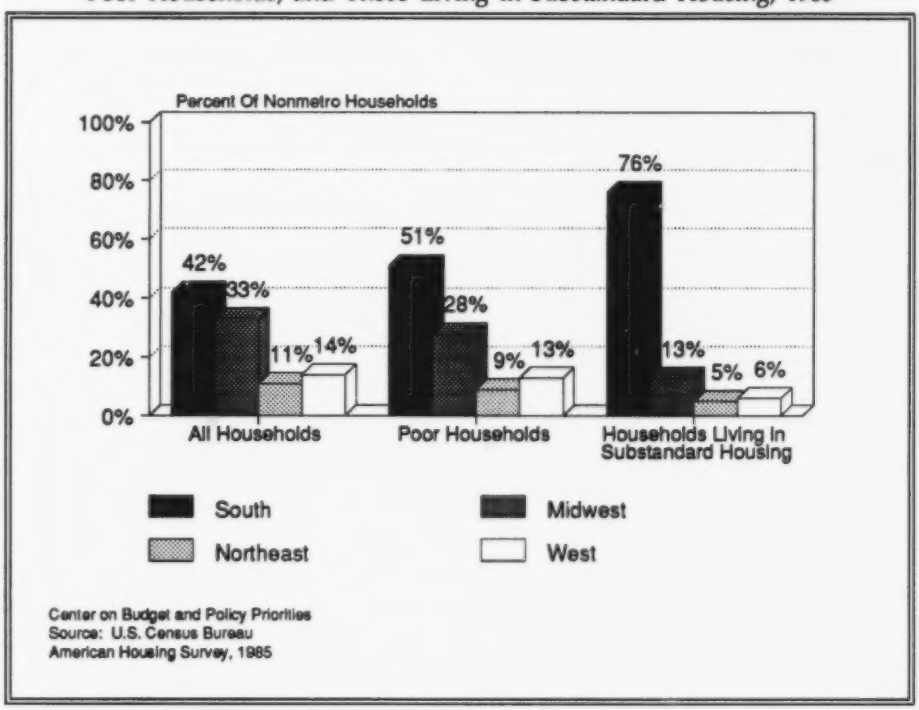
The most significant regional housing distinction among nonmetro households is in housing quality. Households living in the South are much more likely than those in other regions to occupy substandard housing. This is true for nonmetro and metro households alike.

More than one of every six (18 percent) nonmetro households living in the South -- including both poor and non-poor households -- lived in substandard housing in 1985. By contrast, five percent of the nonmetro households in the Northeast and four percent in the West and Midwest lived in substandard housing. Thus, nonmetro households in the South were more than three times as likely as nonmetro households in the other regions to occupy substandard housing.

Moreover, in 1985, more than three-fourths of all nonmetro households in the nation living in substandard housing -- 76 percent -- resided in the South. (See Figure 10.) The concentration in the South of nonmetro housing units with various types of deficiencies shows up in a variety of measures.

Figure 10

The Regional Distribution of All Nonmetro Households, Poor Households, and Those Living in Substandard Housing, 1985



- While 42 percent of all nonmetro households lived in the South, these households occupied 83 percent of the nonmetro units with evidence of rats, 73 percent of the units with holes in the floor, and 53 percent of the units with cracks in the walls.

- They also occupied 79 percent of the nonmetro units with inadequate waste disposal, 61 percent of the units with inadequate heating equipment, 62 percent of the units without a complete bathroom, 57 percent of the units with a weak foundation, and 52 percent of the units with inadequate water supplies.

Metro households living in the South also are more likely to live in substandard housing than metro households in other regions. Nevertheless, substandard housing is more common in nonmetro areas of the South than in metropolitan areas of that region. Some 12 percent of metro households living in the South lived in substandard conditions in 1985.

VI. Black Households

Nearly half of all black households in nonmetro areas live in poverty. This is much higher than the incidence of poverty among blacks in metropolitan areas -- and is even higher than among blacks living in the nation's central cities.

As a result, many nonmetro black households are affected by the housing problems associated with poverty. Poor quality housing is an especially severe problem among blacks in nonmetro areas, with more than two of every five such households -- including both poor and non-poor households -- occupying substandard housing units.

Income and Poverty

An extremely large proportion of black households in nonmetropolitan areas -- 47 percent -- were poor in 1985. In contrast, 17 percent of white households in nonmetro areas were poor. Hence, nonmetro blacks were nearly three times as likely to be poor as were nonmetro whites. The high poverty rate among nonmetro blacks is a matter of considerable significance, since poor households typically spend a very large percentage of their income for housing and often live in substandard or overcrowded housing conditions.

The poverty rate among blacks in nonmetro areas was far above the poverty rate among blacks living in more urban settings. While nearly half of all nonmetro blacks lived in poverty in 1985, one in three black households in metro areas did. Even the poverty rate among black households living in central cities -- 37 percent -- was well below the black poverty rate in nonmetro areas.

An overwhelming majority of both poor and non-poor black households in nonmetro areas live in the South. In 1985, nine of every 10 nonmetro black households -- 91 percent -- lived in the South.

The Housing Cost Burdens of Nonmetro Black Households

A significant proportion of poor black households living in nonmetro areas pay a large portion of their income for housing.

- Some 68 percent of poor black renters in nonmetro areas -- and 55 percent of poor black homeowners -- spent at least 30 percent of their income for housing in 1985, thereby exceeding the federal affordability standard.

- About one of every three poor black households in nonmetro areas spent 50 percent or more of income for housing.

Following the general trend for nonmetro households, poor black households in nonmetro areas are less likely to bear high housing cost burdens than are poor black households living in metro areas. Nearly four of five poor black renters and owners in metro areas spent at least 30 percent of their income for housing in 1985, and more than half spent at least 50 percent.

Poor blacks living in nonmetro areas are somewhat less likely to bear high housing costs than are poor nonmetro whites. Three of every four nonmetro poor white households spent at least 30 percent of their income for housing in 1985, compared with three of five poor nonmetro black households.

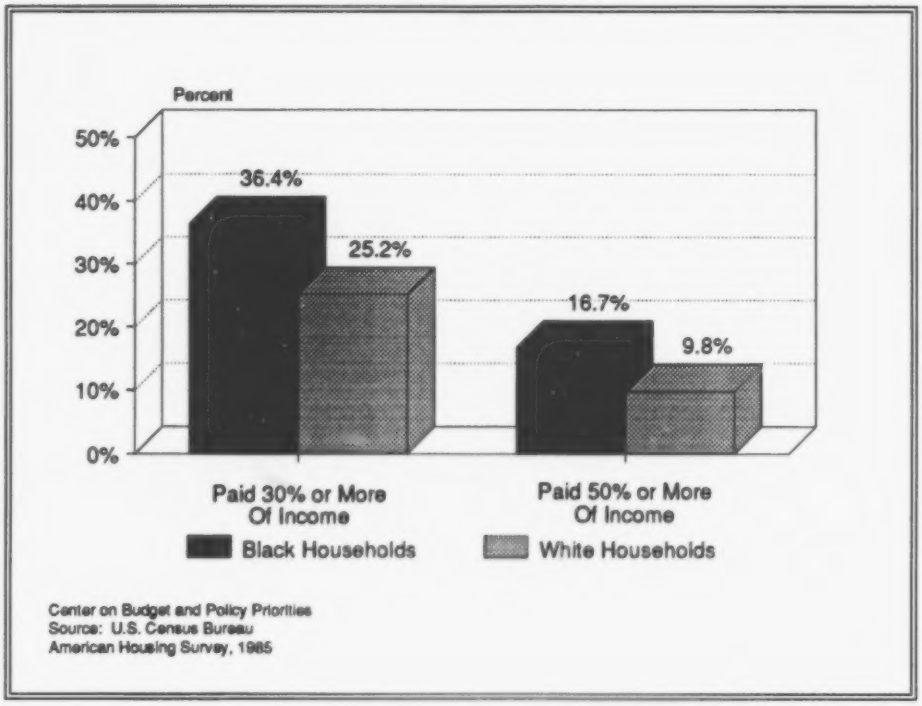
However, since black households in nonmetro areas are nearly three times as likely as whites to be poor, they are much more likely than whites to face the high housing cost burdens associated with poverty.

When *all* nonmetro households are examined -- including both the poor and non-poor -- it is clear that high housing cost burdens affect a much larger share of the black population than of the white population.

- In 1985, one of every six black households in nonmetro areas -- 17 percent -- spent at least 50 percent of income for housing. By contrast, one of every 10 nonmetro white households -- 10 percent -- paid 50 percent or more of income for housing.

- Similarly, more than one-third of all nonmetro black households -- 36 percent -- paid at least 30 percent of their income for housing, while one of every four nonmetro white households -- 25 percent -- bore housing cost burdens of this magnitude. (See Figure 11.)

Figure 11
Housing Cost Burdens by Race
In Nonmetro Areas, 1985



Homeownership Among Nonmetro Black Households

Poor black households in nonmetropolitan areas were somewhat less likely than poor white households to be homeowners in 1985. Half of the poor black households in nonmetro areas -- 50 percent -- owned their homes, compared with 57 percent of poor white households.

Poor blacks in nonmetro areas are much more likely to be homeowners than are poor blacks living in metro areas, however.

- In 1985, some 22 percent of poor black households in metro areas were homeowners. This is less than half the proportion of poor blacks in nonmetro areas that own their homes.

- Among poor white households in metro areas, 41 percent owned their homes. Thus, the gap between black and white homeownership rates is significantly greater in metro than in nonmetro locations.

Large Numbers Of Nonmetro Blacks Live In Substandard Housing

A relatively high rate of homeownership among black households in nonmetro areas does not, however, mean that most nonmetro blacks are well housed. On the contrary, an extremely large proportion of black households living in nonmetro areas occupy substandard housing units.

- In 1985, two of every five (41 percent) nonmetro black households, including both poor and non-poor households, lived in substandard housing.

- In contrast, just seven percent of white households in nonmetro areas lived in substandard housing.

As a result, blacks represented a highly disproportionate share of the households living in substandard housing in nonmetro areas.

- Blacks constituted 7.5 percent of the total nonmetro population, but made up 30 percent of the nonmetro households living in substandard housing.

- Blacks occupied 40 percent of the nonmetro housing units with evidence of rats, 43 percent of the units with holes in the floor, 37 percent of the units with inadequate waste disposal, and 29 percent of the units with cracks in the wall.

Moreover, black households in nonmetro areas are more than *twice as likely* as metropolitan and central city black households to live in substandard housing conditions. While 41 percent of nonmetro black households lived in substandard housing in 1985, some 19 percent of black households in both metro areas and central cities did.

VII. Elderly Households

In 1985, some 5.2 million households living in nonmetropolitan areas were headed by a person aged 65 or older. While most nonmetro elderly households were homeowners, many with their mortgages paid off, a significant number had low incomes and suffered from problems of housing affordability and quality.

A large proportion of poor elderly households in nonmetro areas -- nearly two of every three -- are individuals living alone. The majority of these single-person elderly households are women. Nearly all nonmetro elderly households are one- or two-person households.

Nonmetro elderly households are more likely to be poor than their counterparts in metropolitan areas. Some 27 percent of nonmetro elderly households were poor in 1985, compared with 19 percent of the elderly in metro areas.

In addition, households headed by an elderly person make up a substantially larger portion of the poor population in nonmetro than in metro areas.

- More than one-third of all nonmetro poor households -- 37 percent -- were headed by an elderly person in 1985.

- Some 27 percent of poor households in metro areas were headed by an elderly person.

Elderly and Non-Elderly Households

Elderly households in nonmetro areas are more likely to have low or moderate incomes than non-elderly households. As noted, in 1985 some 27 percent of the nonmetro elderly households were poor.[40] Moreover, more than three-fifths of nonmetro elderly households -- or 61 percent -- had incomes below twice the poverty line. The poverty line for an elderly household in 1985 was $5,156 for a single person and $6,503 for a two-person household.

In contrast, some 17 percent of *non*-elderly households living in nonmetro areas had incomes below the poverty level, and 41 percent fell below twice the poverty line.[41] (See Table VII.)

Table VII

Poverty Rates Among Elderly And Non-Elderly Households in Nonmetro Areas, 1985

	Elderly	Non-Elderly
Poor	27.4%	16.8%
Below Twice The Poverty Line	61.2%	41.3%

Center on Budget and Policy Priorities
Source: U.S. Census Bureau
American Housing Survey, 1985

Nonmetro elderly households also are more likely than non-elderly households to own their homes and to have paid off their mortgages.

- In 1985, seven of every 10 nonmetro elderly households were homeowners who owned their home and had paid off their mortgage.
- In contrast, only a minority of non-elderly households -- 30 percent -- were homeowners who were free of mortgage liabilities.

As a result, elderly households are more likely both to have equity built up in their home and to have lower monthly housing costs. The typical nonmetro

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[40]Among the single elderly in nonmetro areas, some 39 percent were poor.

[41]Some analysts suggest that poverty data relating to elderly and non-elderly households are incomplete because they consider only income and do not include assets. While elderly households typically have lower incomes than non-elderly households, they are more likely to have personal assets and property, especially home equity. If both income and personal wealth are considered, the difference in poverty rates between elderly and younger households would be smaller than when using the standard income definition of poverty. Nevertheless, one analysis of *rural* households indicates that even under a poverty standard that includes both income and assets, elderly households are more likely to be poor than non-elderly households. (Lerman, Donald L. and James J. Mikesell, "Rural Poverty: Do Assets Matter?" in *Rural Development Perspectives*, February 1989, pp. 11-15.

elderly household, including both homeowners and renters, had housing costs of $173 a month in 1985. The typical non-elderly household in a nonmetro area spent $295 a month on housing.[42]

The Housing Cost Burdens of Poor Elderly Households

Despite these lower housing costs, many poor elderly households in nonmetro areas bear high housing cost burdens. In 1985, three of four poor elderly renters spent at least 30 percent of their income for housing, thereby exceeding the federal affordability standard. Similarly, two-thirds of poor elderly homeowners -- 66 percent -- spent at least 30 percent of their income on housing.

Poor elderly households in nonmetro areas are nearly as likely to bear housing costs outside the affordable range as are their younger counterparts.

- Some 73 percent of poor *non*-elderly households -- including both renters and homeowners -- spent 30 percent or more of income on housing in 1985.

- A similar proportion of poor elderly households -- 69 percent -- had housing costs of this magnitude.

The elderly poor in nonmetro areas are, however, less likely than the non-elderly poor to bear extremely high housing costs. In 1985, some 48 percent of the non-elderly poor households in nonmetro areas spent at least half of their income on housing, while 32 percent of poor elderly households did.

Comparing the Housing Costs of the Elderly and the Non-Elderly

The high housing cost burdens associated with poverty affect a larger proportion of the overall nonmetro elderly population -- including both poor and non-poor housholds -- than of the overall non-elderly population. This is because nonmetro elderly households are more likely to have low incomes than non-elderly households in nonmetro areas. In 1985, nearly one in three nonmetro elderly households -- 31 percent -- spent 30 percent or more of income on housing. By

[42]Data from the 1985 American Housing Survey do not separate out elderly homeowners and elderly renters in nonmetro areas. Rather, the data lump renters and homeowners together. For that reason, most of the analysis in this chapter deals with *all* elderly households in nonmetro areas, without an owner/renter distinction.

comparison, some 24 percent of non-elderly households in nonmetro areas spent at least 30 percent of income on housing.

Since a large majority of nonmetro elderly households own their homes free of mortgage payments, the costs that nonmetro elderly homeowners incur even when they have no mortgage obligations -- costs for utilities, maintenance, property taxes, and insurance -- frequently appear to consume a substantial proportion of their limited incomes.[43] This is primarily because so many nonmetro elderly households have low incomes.

Substandard Housing Among Nonmetro Elderly

While elderly households in nonmetro areas are more likely to be homeowners than are non-elderly households, they are not more likely to live in safe and decent housing. A substantial number of nonmetro elderly households occupy substandard units, including many that lack basic necessities such as adequate plumbing and sewage disposal.

- In 1985, some 13 percent of nonmetro elderly households, including both poor and non-poor households, occupied substandard housing units.

- In comparison, nine percent of the non-elderly households in nonmetro areas occupied substandard units.

- Moreover, elderly households in nonmetro areas were nearly twice as likely as non-elderly households to live in units that have *severe* physical problems.

- In metropolitan areas, by contrast, elderly households are *less* likely to live in substandard housing than are non-elderly households.

Elderly households in nonmetro areas also are more likely to live in substandard housing than are elderly households in metro areas. In fact, the

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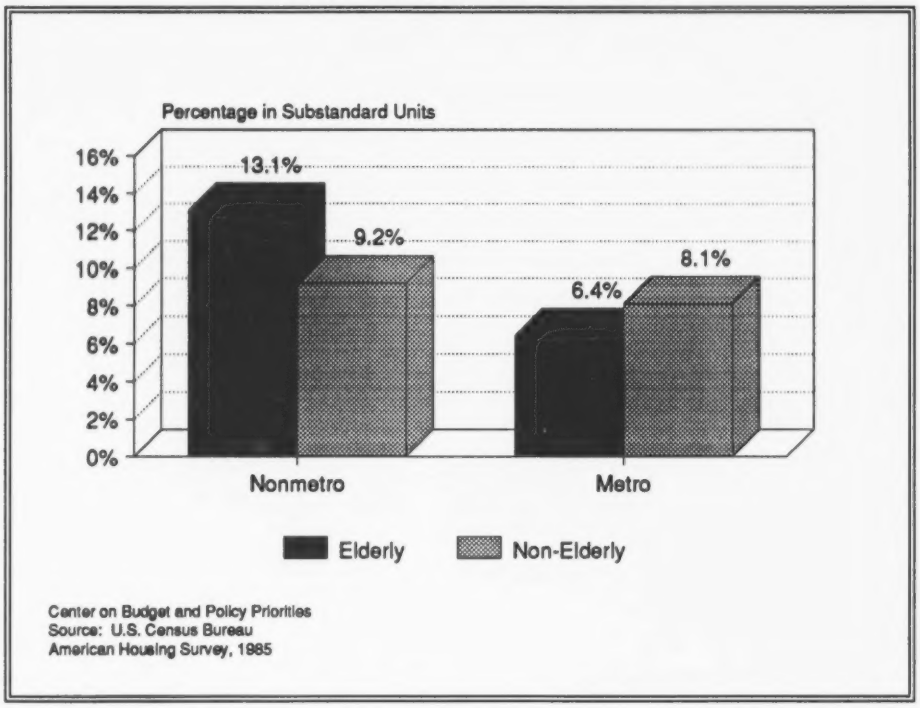
[43]A number of states have programs that modestly reduce the housing costs of some elderly households. These programs generally aim to alleviate high property tax burdens among low and moderate income elderly households. They do so by giving beneficiaries a rebate check as a partial refund of the property taxes they have paid. Such programs, which are often referred to as circuitbreaker programs, usually cover renters as well as homeowners; in these programs, a portion of rental charges are assumed to represent property tax costs passed on to the tenant by the landlord. While some states also extend these programs to low income *non*-elderly households, it is more common for states to limit the benefits to the elderly or to the elderly and disabled.

nonmetro elderly are *more than twice* as likely as the elderly in metro areas to live in substandard conditions. (See Figure 12.)

Figure 12
Substandard Housing Among Elderly and Non-Elderly Households
In Metro and Nonmetro Areas, 1985



Furthermore, while 27 percent of all elderly households lived in nonmetro areas in 1985, some 43 percent of the elderly living in substandard conditions resided in nonmetro areas. Some 57 percent of the elderly living in severely inadequate housing lived in nonmetro areas, as did 65 percent of the elderly households with inadequate water supplies, 78 percent of those with inadequate sewage disposal, and 53 percent of those with inadequate heating equipment.

VIII. Conclusion

For most low income households in nonmetro areas, housing has become an increasingly unaffordable commodity. With nearly three of every four nonmetro poor households paying at least 30 percent of their incomes for housing -- and with substantial numbers paying 50 percent and even 70 percent -- little money is left for other necessities.

The problem of affordability in nonmetro areas has worsened since the late 1970s and is now the most common housing problem faced by nonmetro poor households. In addition, while improvements in housing quality have been made in nonmetro areas in recent decades, substantial numbers of nonmetro poor households continue to live in substandard housing.

The high housing cost burdens faced by most poor households in nonmetro areas have serious implications. The acute shortage of housing affordable for poor households is likely to have contributed substantially to the growing problem of homelessness in the 1980s.

These severe housing cost burdens are also likely to have intensified related problems such as hunger. The likelihood that a poor household will be without adequate food for part of a month is considerably greater when the rent consumes so much of the household's income that it has too little left to buy food to last through the month.

High housing cost burdens also leave poor families especially vulnerable to unplanned economic disruption. An unexpected medical expense, a job lay-off or a delay in a public assistance check can lead to a missed rent payment, an unpaid

utility bill, or a shortage of groceries toward the end of the month. All of these events can have significant consequences for poor households.

Affordability is the most common housing problem faced by poor households in both nonmetro and metro areas. Poor households in nonmetro areas are slightly less likely to bear high housing cost burdens than are poor households in metropolitan areas, in part because a larger proportion of the nonmetro poor are elderly households that own their homes free of mortgage liabilities. However, the nonmetro poor often live in poorer quality housing than their metro area counterparts. They are more likely than poor metro households to live in units that are substandard -- and are much more likely to live in housing with serious deficiencies, such as inadequate heating or plumbing equipment or poor water supplies.

Furthermore, nonmetro households are more likely than metro households to be poor -- and therefore are more likely to face the housing problems associated with poverty.

Recent government commitments to assisting poor households with housing needs have been limited. Fewer than one in three poor renter households in both nonmetro and metro areas receives assistance through a federal, state, or local public or subsidized housing program. While developments in the private economy have created an increased need for government housing assistance in the 1980s, the federal government has reduced its commitment in this area. Had the number of units added to the federally subsidized housing stock in the 1980s continued at the same rate as in the late 1970s, commitments to assist nearly one million additional low income households in nonmetro areas would have been made.

There is a crisis in housing for low income Americans in nonmetropolitan areas. Affordability problems worsened sharply for low income nonmetro households between the late 1970s and the mid-1980s. This housing crisis for the poor is unlikely to improve in the years ahead unless major changes are made in government policies and in the actions of the private sector.

Appendix A

STANDARDS OF AFFORDABILITY

This report concentrates on the housing cost burdens of households with incomes below the official poverty line. For comparisons of income and housing costs, the report uses the same standard of affordability that the Department of Housing and Urban Development uses for its subsidized housing programs: low income households can afford to spend no more than 30 percent of their incomes for housing. However, questions can be raised concerning the use of this standard, especially for poor households.

Problems with the HUD Affordability Standard

The HUD standard of affordability is a questionable measure of a household's ability to pay for housing principally because it makes no allowance for household size. For example, a large household must spend more for food and various other needs than a single individual. Yet if the HUD standard of affordability is used, a large household is expected to spend the same amount on housing as a smaller household. That leaves the large household with less money remaining per person for all other expenses than it leaves the smaller household.

For example, if a single person with an income of $5,000 obtained housing at $125 a month (30 percent of a $5,000 annual income), the person would have $292 a month left for other expenses. A three-person household at the same income level and paying the same rent would have only $97 per person remaining for other expenses, while a seven-person household would have only $42 per

person remaining. Under the HUD affordability standard, all three of these households are presumed to be able to spend the same amount on housing.

An Alternative Affordability Standard: The Market Basket

An alternative method to determine affordability is to estimate how much income a family would have left for housing costs after the household pays for other basic necessities. This is called the "market basket" approach.

Until 1982, the Bureau of Labor Statistics of the Department of Labor published annually a series of "urban family budgets," which included estimates of the costs of basic necessities for households of various sizes and differing standards of living. BLS issued three sets of budgets: one for a lower standard of living, a second for an intermediate standard of living, and a third for a higher standard of living. The most recent year for which BLS published these family budgets was 1981.

The BLS budgets can be used to assess the affordability of housing for low income households under the market basket approach. This is done by taking the 1981 BLS estimates of the costs of all necessities other than housing under the lower standard of living budget, which has been described as providing a modest but adequate standard of living, and adjusting these estimates for inflation between 1981 and 1985. The BLS data show the amounts that households of various sizes needed in 1985 to purchase basic necessities -- other than housing -- to attain the BLS lower standard of living. (See Table A-I.) The differences between these amounts and a family's actual income represents what the family would have left to spend for housing.

These data suggest that the HUD 30 percent of income standard may be unrealistic for many poor households. Under the HUD standard, for example, it is assumed that a family of two with an income of $6,000 in 1985 could afford to pay $1,800 a year for housing. But under the market basket approach based on the BLS figures, this family could not afford to pay anything for housing and still fully meet the costs of other necessities. Similarly, the HUD standards suggest that a family of four with an income of $12,000 could pay $300 a month for housing, while the BLS data indicate that the household would have only $98 per month remaining -- or 10 percent of income -- after meeting other basic needs.

On the other hand, the market basket approach would suggest that some smaller households could afford to spend more than 30 percent of income on housing. A one-person household with an income of $6,000 could afford to spend $1,800 a year for housing under the 30 percent standard. However, after meeting

its non-housing needs under the market basket approach, that household would have $2,040 -- or 34 percent of income -- remaining to pay for housing.

Table A-I

Annual Non-Housing Costs
For BLS Lower Standard of Living, 1985

Family Size	Annual Cost for Non-Housing Needs
1	$3,960
2	$6,290
3	$9,060
4	$10,820
5	$14,590

Not surprisingly, the number of large households that have affordability problems is substantially greater under the market basket approach than under the HUD 30-percent-of-income standard. Conversely, the number of small households with affordability problems is lower under the market basket approach.

Appendix B

FEDERAL LOW INCOME HOUSING ASSISTANCE PROGRAMS

The federal government has subsidized housing for low income people since the Depression. The first rural housing assistance programs were created under the Resettlement Administration, whose goals were to assist farm families hurt by the Depression. At the same time, public housing was initiated to serve urban areas as part of a broader jobs program. Since then, federal involvement in housing for low income people has taken a variety of forms.

Today, households living in nonmetro areas receive housing assistance through programs of the Farmers Home Administration of the Department of Agriculture and through the Department of Housing and Urban Development. The FmHA service area includes rural areas (defined as those with a population of 2,500 or less), areas with a population of 10,000 or less that are rural in nature, and areas with a population of 10,000 to 20,000 that are outside metropolitan areas and are determined to have a need for such services.

HUD also serves some rural households. Under the Housing and Community Development Act of 1974, a certain proportion of HUD funds -- set by law at between 20 percent and 25 percent -- must serve households in nonmetro areas.

This appendix provides general background on federal housing policies affecting rural areas, followed by a brief description of the current housing programs of FmHA and HUD. It does not deal with other federal housing programs, such as mortgage and credit insurance, or with tax expenditures related

to housing. The latter benefit only the minority of taxpayers who itemize their returns.

Types of Housing Subsidy Programs

Before describing the various low income housing programs, it is useful to identify the major aspects of federal involvement in low income housing assistance.

- Housing programs may be targeted on *very low income* people -- defined by FmHA and HUD as those with household income less than 50 percent of the median household income in their area, adjusted for household size. Alternatively, they may be targeted on *low income* people -- those with household income below 80 percent of the median household income in their area. In a small number of cases, housing programs may be targeted on moderate income households as well.

- A program may be directed to special groups, such as elderly and handicapped people, farmworkers, or Native Americans.

- Housing assistance can serve both homeowners and renters. The Farmers Home Administration provides assistance primarily through homeownership programs. While HUD homeownership programs have helped thousands of households in the past, FmHA is the only current source of homeownership assistance.

- Housing assistance for homeowners can occur through guaranteed and below-market interest rate loans and, in some cases, through grants. The subsidies can cover both home purchase and repair needs.

- In renter assistance programs, housing assistance can be "project-based" or "tenant-based." In project-based programs, subsidies may include funds to cover the direct costs of construction, may provide low-interest financing for the construction of a housing project, or both. In some cases, the project subsidy is a guaranteed market-rate rental payment to owners for units that are reserved for low income tenants. In tenant-based assistance programs, recipients choose, within some limits, the rental units they will occupy in the private rental market. The government pays the owner of the unit a portion of the rent, with the recipient paying the remainder.

- Housing assistance programs may restrict the rent charged a low income household to a percent -- usually 30 percent -- of household income, with the government paying the remainder of the rent. Alternatively, these programs may set limits on the rent that owners of a subsidized unit can charge, or they may base rent levels on a formula tied to the amount of interest subsidy the landlord receives.

- The construction or rehabilitation of housing projects can be carried out by a public agency, or subsidies for these purposes can be provided to a nonprofit or for-profit owner.

A Brief History of Low Income Housing Programs

The major housing programs of the Farmers Home Administration were created as part of the Federal Housing Act of 1949. FmHA is primarily a lending institution serving the housing needs of people in rural areas.

The focus of FmHA has changed significantly since its inception. Following the pattern of its predecessor agencies, FmHA initially served farm families, through farm ownership loans and water facilities projects. In 1961, the FmHA housing programs were made available to non-farm residents of rural areas. Today, most recipients of FmHA services are non-farm families.

Two other significant changes occurred in the Farmers Home Administration in the 1960s. First, FmHA rental housing programs were significantly expanded. Second, FmHA established targeting guidelines under which a certain portion of its funds were to serve low income residents of rural areas. Previously, its services primarily were intended to provide credit to all rural residents, since many rural areas had inadequate credit resources compared with urban areas. These changes included targeting low income and elderly residents for rental programs and providing low-interest loans to enable low income residents to become homeowners. In 1983, FmHA programs became still more targeted on lower income families, in that a specific proportion of funds had to serve "very low income" residents and not merely "low income" residents.

HUD's low income housing programs also have changed significantly over the years. Through the 1960s, housing subsidies were provided primarily for construction of new units, in response to an urban housing shortage during and after World War II and to the need to replace a substantial number of substandard units. Since the mid-1960s, with substantial increases in the quantity of decent housing, the most serious -- and growing -- housing problem facing low income

people in urban areas was that of affordability. In many communities, there were vacant units, but they cost far more than low income households could pay. With a decreasing need to build new housing for poor households, tenant-based subsidies were introduced to allow these households to obtain decent housing from the existing stock.

Housing subsidies for the production or rehabilitation of low income housing have also changed. Through 1968, most federal production subsidies financed the construction of housing by public housing authorities. Since then, a greater emphasis has been placed on encouraging private, for-profit developers or nonprofit organizations to build or rehabilitate low income housing.

There are currently about 4.3 million units receiving subsidies under HUD programs, and FmHA has made commitments to about 2.3 million households.

Low Income Housing Programs of the Farmers Home Administration

The Farmers Home Administartion is primarily a lending agency. Unlike HUD's lending programs, however, most of FmHA's programs are not dependent on banks or other lending institutions. Rather, FmHA is a direct lender, providing and administering loans through its own loan funds. FmHA is considered a lender of last resort. It assists those unable to get adequate or affordable credit through conventional sources, making loans and other financial assistance directly to eligible families, public bodies, and both for-profit and nonprofit organizations.

Homeownership Loans (Section 502): This program provides loans to low income households to purchase or build homes, purchase land, or provide waste disposal and water facilities. Very low income participants can receive loans with a subsidized interest rate as low as one percent. Furthermore, downpayments for participants can be reduced to below-market levels, and for some very low income participants there is no required downpayment.

The Section 502 loan amount can be reduced by as much as 20 percent through a Section 523 Self Help Technical Assistance grant. Under this program, a group of families receive technical assistance allowing them to contribute labor to build their own homes, thus lowering the cost of construction and of the mortgage.

By 1988, some 1.7 million families had borrowed under the Section 502 program. Many had paid off their loan or "graduated" to an unsubsidized mortgage as their income rose. In addition, more than 15,000 households have received assistance under the Section 523 Self Help program.

Low Income Repair Loans and Grants (Section 504): This program provides low interest loans and grants to enable very low income households to repair or improve their homes or remove health and safety hazards. As of 1988, 78,000 loans and 62,000 grants, sometimes to the same owners, had been made under Section 504.

Rental Housing Loans (Section 515): This program provides low interest loans to finance the development of low income rental housing. Developers -- including public agencies, and for-profit and nonprofit organizations -- receive low interest loans to build or rehabilitate existing structures, and in return must set rent levels that are affordable to low and moderate income families. By 1988, 421,000 Section 515 units had been built.

Rental Assistance (Section 521): This program provides subsidies to those households living in Section 515 projects or other FmHA rental projects that are unable to afford even the rents in these projects. Tenants are expected to pay 30 percent of their adjusted income for rent, and the Section 521 subsidy covers the difference between the tenant contribution and the actual rent. Some 196,000 tenants occupying FmHA rental housing projects were receiving Section 521 rental assistance in 1985.

Farm Labor Housing (Section 514/516): This program provides low interest loans and grants to build, repair, or improve housing for farm laborers. Farmers, farm corporations, public agencies, nonprofit organizations, and Indian tribes are eligible to receive funds under this program, which had provided 26,000 units of housing for farm laborers as of 1985.

Low Income Housing Programs of the Department of Housing and Urban Development

Section 8: There are several Section 8 programs, but all have a similar goal: to provide a subsidy that bridges the gap between what lower income households can afford to pay for housing and the "fair market" cost of that housing. Public agencies and for-profit and nonprofit organizations can participate in Section 8 programs, which have included both project-based and tenant-based subsidies.

Under the Section 8 New Construction and Substantial Rehabilitation programs -- which were active for about six years but were largely ended in 1981 -- developers were encouraged to build or rehabilitate low income housing in return for receiving a "fair market rent" for units rented to eligible low income

tenants. Fair Market Rent levels are set by HUD for metropolitan areas and nonmetropolitan counties to reflect the costs for decent but modest housing in each locality.

Today, the major Section 8 activity is in tenant-based subsidies. These subsidies cover the difference between the tenant's rental contribution -- usually 30 percent of adjusted household income -- and the fair market rent of the unit. The two major forms of Section 8 tenant-based subsidies are *certificates* and *vouchers*, which are alike in that tenants choose their own units from the existing, generally private, housing market. The HUD subsidy is paid to the landlord of the unit selected by the tenant, provided the unit meets certain quality standards. Contract terms for these subsidies last five to 15 years.

By 1988, some 2.3 million units were receiving Section 8 subsidies, not counting an additional 203,000 Section 236 units that also received Section 8 assistance. A majority of these subsidies were certificates or vouchers.

Public housing: Established during the Great Depression with the dual goals of providing employment and creating decent and affordable rental housing for low income households, the public housing program has always been restricted to households with incomes too low to rent decent housing in the private market. Public housing is owned or, in rare cases, leased by public housing authorities.

Rents for public housing tenants are limited to 30 percent of income, and public housing authorities receive federal operating subsidies that are intended to cover the difference between rental income and operating costs.

By 1988, there were 1.4 million public housing units. Despite the great attention paid to troubled high-rise public housing projects, most units are in garden apartments.

Housing for the elderly and handicapped (Section 202): This program, established in 1959 as a direct loan program, provides financing to nonprofit organizations to build housing for elderly or handicapped people. The program is intended to serve people whose incomes exceed the eligibility limits for public housing, but are still too low to enable them to afford unsubsidized housing. Until 1970, the program provided only low interest loans of three percent or less to cover development costs. Because this did not always reduce rents to levels affordable to low income elderly households, some Section 202 residents receive Section 8 subsidies to cover a portion of rental costs. A total of 210,000 units had been produced under the Section 202 program by 1988.

Below-market interest rate (BMIR) programs: These programs are similar to the Section 515 program of FmHA, in that they provide low-interest loans to developers in return for the construction of moderately priced rental housing. Loans are provided at or below three percent to nonprofit and for-profit owners, with the resultant savings passed on to tenants in the form of lower rents. About 160,000 units have been produced under this program, known as the Section 221(d)3 program.

In 1968, the 221(d)3 BMIR program was supplanted by another form of interest subsidy, the Section 236 rental assistance program, which could reduce effective interest rates to as little as one percent, with the savings passed on to low and moderate income tenants. Some 528,000 units were receiving subsidies under the Section 236 program in 1988. However, the interest subsidy alone was not sufficient to reduce costs to affordable levels for many of the low income tenants who lived in Section 236 projects. As a result, a variety of more extensive subsidies have been provided, such as additional subsidies under the 236 program itself, rent supplements, and Section 8 assistance.

A second major program enacted in 1968 was aimed at subsidizing home ownership by reducing mortgage interest rates. The Section 235 program was similar to the Section 502 program of FmHA in that it provided low-interest mortgages to low income families to enable them to purchase a home. Although this program has made virtually no new commitments since 1985, some 148,000 units were being subsidized as of 1988. This number does not reflect almost 400,000 units originally subsidized under the program but for which the mortgages have since been paid off, the purchasers have graduated to unsubsidized interest rates as their incomes rose, or the owners have defaulted.

Rent supplements: Under this program, initiated in 1965, tenants were required to pay the greater of 30 percent of adjusted household income or 30 percent of the rent of a unit selected from the existing rental market. The rent supplement program is very similar to the Section 8 program, and since the mid-1970s, HUD has been converting rent supplement contracts to Section 8 contracts, leading to a steady attrition in the number of rent supplement units. From a peak of 180,000 units in 1977, the number had dropped to 23,000 by 1988.

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